



Susan Montee, CPA
Missouri State Auditor

March 2007

**Riverview Gardens
School District**

Year Ended June 30, 2006



Office Of
Missouri State Auditor
Susan Montee

March 2007

The following findings were included in our audit report on the Riverview Gardens School District.

The Riverview Gardens School District's financial condition has declined significantly in the past year and based on the amended fiscal year 2007 budget, is expected to further deteriorate. The operating funds balance at June 30, 2005 was \$12.4 million and is projected to be only \$1.6 million at June 30, 2007. School districts with an operating funds balance of less than three percent of the operating funds expenditures are considered "financially stressed" per state law. In addition, the district has been classified as "Provisionally Accredited" by the Missouri Department of Elementary and Secondary Education, as the district has not met enough standards and indicators to be accredited.

During the four year, six month period ended December 31, 2006, the superintendent was apparently overpaid by approximately \$158,400. From December 2004 to August 2006, the superintendent received 12 unauthorized salary advances and received various other salary amounts totaling \$2,000 that were not approved by the board. In addition, the district paid interest totaling approximately \$39,000 on the superintendent's personal loans against his insurance policies during the three years ended June 30, 2006. Also, car allowances paid to the superintendent exceeded the amount authorized by his employment contracts by \$6,300 during the three year, six month period ended December 31, 2006.

The superintendent carried forward more vacation days than allowed by his contract and was paid \$27,551 for 45 vacation days in June 2005 and \$26,122 for 40 vacation days in February 2006. The payments were approved by the board president, but were not submitted to the full board for approval.

The district over funded the superintendent's annuity by \$15,000 for the year ended June 30, 2006. In addition, the district paid approximately \$42,500 more for the superintendent's insurance premiums than required by the contract and untaxed contributions to the superintendent's tax sheltered annuities appear to exceed limits established by the IRS.

Original budgets approved by the board were not accurate and complete, reasons for budget amendments were not clearly documented, and the district's final actual operating funds disbursements exceeded budgeted amounts by \$5.7 million for the year ended June 30, 2006. The original budget for fiscal year 2007 underestimated disbursements and had to be amended for corrections in November 2006. Concerns regarding financial records and reporting include monthly financial reports being inaccurate, coding disbursements to whatever area had funds remaining in the budget, not posting checks on a timely basis, and in June 2006, knowingly issuing checks in excess of the accounts payable bank account balance.

(over)

YELLOW SHEET

There were numerous concerns regarding bidding and contracts. Several purchases were not competitively bid or competitive requests for proposals were not obtained, including: alternative education services, \$2,020,188; custodial equipment and supplies, \$410,743; classroom learning materials, \$364,034; and educational software, \$250,000 to name a few. Board minutes did not document the reasons for rejecting the lowest bid for a construction project, written contracts were not properly executed with some vendors and some contracts were not approved by the board. Additionally, requests for proposals were not adequately planned. On February 23, 2005, the board approved a \$1.3 million contract for energy management services for three schools. Eleven days later, a change order for \$736,000 was approved to add eight more buildings to the contract.

The district paid approximately \$43,000 to a moving company owned by a board member's father and the district hired relatives of a board member and an administrator in violation of board policy. The district has not established adequate procedures for identifying related parties.

During the two years ended June 30, 2006, charges totaling approximately \$240,000 were made on the district's credit cards. Receipts were missing for 42 of the 48 monthly credit card statements reviewed. Additionally, board members and the superintendent did not account for cash advances and did not return or account for unused funds. Also, some disbursements do not appear to be reasonable uses of public funds including: \$7,000 for artwork and print framing for art in individual offices, \$4,900 for lodging, meals, and refreshments for a two-day board retreat held in Hermann, Missouri and \$1,180 for the superintendent's four subscriptions to a local theatre company. Finally, software training sessions totaling \$41,625 were not supported by a written contract.

Payroll records and procedures are in need of improvement. The district has not developed a master staffing plan as part of the annual budget and does not have written job descriptions for some positions. Procedures for hiring employees, maintaining employment documentation and leave records, documenting and processing employee terminations, and monitoring and controlling overtime need improvement. Payroll calculations are not reviewed to ensure they are correct. As a result, there were several overpayments made to terminated employees. Salaried employees are paid in advance of the time worked and are not required to prepare time sheets. In addition, car allowances paid to the Director of Facilities and the Director of Safety and Security/Residency and Enrollment were not approved by the School Board.

Receipt and disbursement controls and procedures need improvement. The list of checks presented to the board each month is not complete and several checks are issued to vendors prior to or without board approval. Invoices are not adequately reviewed which resulted in several duplicate payments. Receipts are not deposited on a timely basis and receipt records prepared at various collection points are not reconciled to deposits. Some monies were withheld from deposits and used as petty cash and change funds and some petty cash funds are excessive and not properly maintained.

Also included in the report are recommendations related to capital improvements and property purchases, cellular phones, capital assets, board meeting minutes, and the need for internal audits.

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RIVERVIEW GARDENS SCHOOL DISTRICT

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA

Missouri State Auditor

Honorable Matt Blunt, Governor
and
The Board of Education
Riverview Gardens School District

The State Auditor was requested by the Honorable Matt Blunt, Governor, under Section 26.060, RSMo, to audit the Riverview Gardens School District. Significant concerns had been expressed by taxpayers. The school board engaged Schowalter and Jabouri, P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the years ended June 30, 2006 and 2005. The audit report for the year ended June 30, 2006 has not been completed. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2005. The scope of our audit of the school district included, but was not necessarily limited to, the year ended June 30, 2006. The objectives of this audit were to:

1. Perform procedures to evaluate taxpayer concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the school district, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of taxpayer concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. The work for this audit was substantially completed by January 2007.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the school district's management and was not subjected to the procedures applied in the audit of the school district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Riverview Gardens School District.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

RIVERVIEW GARDENS SCHOOL DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Financial Condition
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The district's financial condition has declined significantly in the past year and based on the fiscal year 2007 budget, amended in November 2006, is expected to further deteriorate. The operating funds balance at June 30, 2005 was \$12.4 million and is projected to be only \$1.6 million at June 30, 2007. This is 1.5 percent of the total budgeted operating funds expenditures of \$107.1 million for the year ended June 30, 2007.

A school district with an operating funds balance of less than three percent of the operating funds expenditures is considered to be "financially stressed" per Section 161.520, RSMo.

The following table depicts original and amended budget and actual unaudited fiscal year 2006 financial information for the operating funds, as well as the original and amended operating funds budget for fiscal year 2007.

		Original Budget Fiscal Year <u>2006</u>	Amended Budget Fiscal Year <u>2006</u>	Actual Unaudited Fiscal Year <u>2006</u>	Original Budget Fiscal Year <u>2007</u>	Amended Budget Fiscal Year <u>2007</u>
Beginning						
Fund						
Balance*	\$	8,192,242	8,192,242	12,447,649	4,453,512	6,029,901
Receipts		100,439,392	100,109,104	99,887,106	101,565,622	102,723,338
Disbursements		<u>101,995,935</u>	<u>100,580,446</u>	<u>106,304,854</u>	<u>102,224,610</u>	<u>107,130,175</u>
Ending						
Fund Balance	\$	<u>6,635,699</u>	<u>7,720,900</u>	<u>6,029,901</u>	<u>3,794,524</u>	<u>1,623,064</u>

* The beginning fund balance estimates were prepared before the fiscal year began and did not include all operating funds in each year.

As noted in Management Advisory Report (MAR) 2, the district expenditures in fiscal year 2006 were greater than originally planned due to the purchase and remodeling of properties. In addition, several problems were noted with amendments to the 2006 budget and the original budget for fiscal year 2007 was not accurate and had to be amended. Accurate and complete budget to actual reports are necessary for the school board to properly monitor the district's financial condition.

The district does not have a long-term financial plan. Although the budget process provides annual financial planning, the school board needs to plan for the long term to ensure the district can stabilize or increase the fund balance.

In addition, the Riverview Gardens School District has been classified under the Missouri School Improvement Program (MSIP) as "Provisionally Accredited" by the Missouri Department of Elementary and Secondary Education. A provisionally accredited district has not met enough of the MSIP standards and indicators to be accredited. To help improve the district's accreditation, the school board must take responsibility to ensure the district's financial condition is secure to provide needed resources to improve the district. The school board should ensure policies, procedures, and records are in place to address the areas of concern included in this report that may also have contributed to the financial decline at the district including inadequate financial reporting (MAR 2), overpayments to the superintendent (MAR 3), not obtaining bids, proposals, and appraisals for many purchases (MARs 4, 5, and 9), inappropriate purchases and travel expenses (MAR 6), the lack of a master staffing plan (MAR 7), incorrect payroll calculations (MAR 8), and the lack of a long-term capital improvement plan (MAR 9).

While reductions in expenditures appear necessary, the district's financial condition can also be improved with more effective management practices and more effective controls and procedures. Various needed improvements are discussed throughout this report.

WE RECOMMEND the School Board closely monitor and take appropriate action to ensure the long-term stability of the district's financial condition. The School Board should implement the various recommendations throughout this report to help in improving the financial condition of the district.

AUDITEE'S RESPONSE

The School Board agrees to closely monitor and take appropriate action to ensure the long-term stability of the district's financial condition. The School Board will implement the various recommendations as outlined in their responses to this report to help in improving the financial condition of the district.

2.

Budgets and Financial Monitoring

Problems were noted concerning the district's budgetary process. In addition, concerns were noted regarding financial records and reporting including inaccurate coding of disbursements, incomplete financial statements, untimely posting of checks, and checks issued in excess of a bank account balance.

- A. Problems were noted with the district's budgets and budgetary process. The original budgets approved by the board were not accurate and complete. The first three amendments to the fiscal year 2006 operating budgets increased receipts and disbursements by \$1.4 million and \$3.2 million, respectively, while the fourth

budget amendment decreased the operating receipts and disbursements by \$1.7 million and \$4.6 million, respectively. The reason for the final budget amendment was not clearly documented and the district's final actual operating funds disbursements exceeded the budgeted amounts by \$5.7 million for the year. Some of the overspending was for the items that were addressed in the first three budget amendments. In addition, overspending was caused by unbudgeted transfers to the Capital Projects Fund and transfers to the Teachers Fund exceeded the original budget.

The original budget for fiscal year 2007 underestimated disbursements and had to be amended in November 2006. District personnel could not support the revenue estimates provided by the former Chief Financial Officer. In addition, payroll and fringe benefits were underestimated because the salary scales were not approved by the board until late June.

It is difficult for the district to accurately budget personnel costs due to the lack of a master staffing plan and the ability to add employee positions without amending the budget (see MAR 7) and the lack of a bus driver contract before the beginning of the fiscal year. In addition, budget amendments were not adequately supported and they were not posted on a timely basis to the district's accounting records. The three amendments to the 2006 budget were approved in August and October 2005 and January 2006 but were not posted to the records until April 2006.

The budget process provides a means to allocate financial resources in advance. Failure to adhere to the disbursement limits imposed by the budgets weakens the effectiveness of this process. Section 67.040, RSMo, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo, provides that no disbursement of public monies shall be made unless it is authorized in the budget. Accurate and complete budgets are needed to provide the school board with the information needed to adequately plan and monitor the financial condition of the district as mentioned in MAR 1.

- B. The district is apparently not coding disbursements properly. Accounting codes are used to help track disbursements by budget area including fund and object code and report the disbursements on the Annual Secretary of the Board Report (ASBR) to the Department of Elementary and Secondary Education (DESE). Several disbursements reviewed appeared to be coded to incorrect accounting codes. For example, equipment and local meal purchases were recorded as supplies, payments to a local consultant were recorded as professional development travel, some percussion courses were recorded as supplies for the superintendent, some travel expenses for the superintendent were recorded as supplies or board training, some board training was recorded as administrator training, and some athletic apparel purchases were paid from the Activities Fund gate receipts, instead of the Incidental Fund. It appears disbursements were coded to whatever area had funds remaining in the budget.

Improper coding of transactions causes the actual disbursement information for the various accounts to be inaccurate. As a result, the actual account balances are unknown and cannot be accurately compared to the budgets and the board cannot effectively monitor the district's financial condition. In addition, the ASBR submitted to the DESE and other required reports to the state and federal governments may be inaccurate.

To establish consistency and accountability among school districts, the DESE provides districts with financial recording guidelines in the *Missouri Financial Accounting Manual*. The DESE has established account codes to track revenues, disbursements, and other transactions. The DESE account code structure is designed as a means of efficient recordkeeping, as well as a basic management tool. It also allows comparability of financial transactions among districts. Without consistent adherence to the DESE account code guidelines, the district's financial reports do not properly reflect the financial transactions of the district.

- C. Monies held in some district bank accounts are not recorded in the district's monthly financial statements. At June 30, 2006, two bank accounts with balances totaling approximately \$977,000 were not included in the district's financial statements. The accounts contain monies held in trust to make some of the district's bond payments. The Senior Accountant indicated these monies are not normally recorded in the district's financial statements until they are audited by the district's independent audit firm. As a result, the district's financial statements are not complete until the audit adjustments have been recorded.

All district receipts, disbursements, and cash balances should be recorded in the district's financial statements on a timely basis to ensure the school board has complete and accurate financial information to make informed decisions about district operations.

- D. The district's monthly financial statements are not adequately reviewed and reconciled to the district's bank reconciliations and the board was not receiving adequate reports to ensure the information was accurate. In September 2005, an adjusting journal entry was made adding \$7.2 million to the cash balance of the Capital Improvement Fund. The district carried this balance on the monthly reports until September 2006 when we brought it to their attention. The district could not determine why this entry was made. As a result, the district's cash and fund balances were overstated for approximately a year.

The district's monthly financial statements should be thoroughly reviewed and reconciled to the district's bank reconciliations on a monthly basis to ensure errors will be detected and corrected on a timely basis. In addition, these financial statements should be submitted to the school board for their review.

- E. Some payroll checks issued prior to the normal semi-monthly payroll cycle to the superintendent were not posted to the accounting records accurately and timely.

For example, a payroll check for \$3,987 issued on June 20, 2006, was posted to the accounting system as issued on August 18, 2006. Although the omission was detected in July, when the June bank reconciliation was prepared, the transaction was not recorded until August. Since the check issue date was posted incorrectly, the payment was recorded in the new fiscal year instead of the previous fiscal year and it was not clear that a payroll advance had been given (See MAR 3.)

The School Board should review monthly bank reconciliations and financial reports to ensure all transactions are recorded in the accounting system timely and accurately and all discrepancies are properly resolved on a timely basis.

- F. The district knowingly issued checks in excess of the accounts payable bank account balance in June 2006. This account is used for all disbursements except payroll and bond payments. The account balance is monitored online on a daily basis, and the amount of outstanding checks is considered when accounts payable checks are issued. At June 30, 2006, the outstanding checks totaled \$895,092, while the available bank balance, including deposits in transit, totaled only \$831,474, resulting in a negative balance of \$63,618. As a result, the district was at risk of incurring fees for issuing non-sufficient funds checks.

To ensure the district does not incur unnecessary fees, the district should refrain from issuing checks in excess of the bank account balance.

WE RECOMMEND the School Board:

- A. Ensure budgets are accurate and complete, budget amendments are made prior to incurring the disbursement, and budget amendments are adequately supported and are posted to the district's accounting records on a timely basis.
- B. Establish procedures to ensure disbursements are coded to the proper accounting codes.
- C. Ensure all district monies are reported in the district's financial statements.
- D. Ensure bank reconciliations are complete and adequately reviewed.
- E. Review monthly bank reconciliations and financial reports to ensure all transactions are recorded in the accounting system timely and accurately and all discrepancies are properly resolved on a timely basis.
- F. Refrain from issuing checks in excess of the bank account balance.

AUDITEE'S RESPONSE

A. *The School Board believes that in hiring the new chief financial officer, they have taken the first step in complying with this recommendation. He has addressed this issue and implemented the recommendation.*

B-F. *The District has implemented these recommendations.*

3. Superintendent's Salary and Benefits
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Procedures for monitoring compliance with the superintendent's employment contract are in need of improvement. The superintendent has received salary advances and various payments and benefits that were not authorized by his employment contract, or which exceeded the contractual limits, but were not documented as approved by the board. Most of the superintendent's leave usage was not reported in the district's records and sick leave benefits are not clearly explained in the employment contract. Untaxed contributions to the superintendent's tax sheltered annuities appear to exceed Internal Revenue Service (IRS) limits and the timing of the annuity payments should be revised to achieve a better matching of benefits earned and paid. In addition, the superintendent's car allowance does not appear reasonable and the district did not provide the superintendent with the term life insurance coverage stated in his contract.

The superintendent's approved salary was \$160,000, \$150,000, \$150,000 and \$135,000 for the years ended June, 30, 2006, 2005, 2004, and 2003, respectively. His contract indicates he is to receive 25 paid sick days, in advance, to be utilized during the year and 25 vacation days per year, no more than 15 of which may be carried over to the following year, unless approved by the board. In addition to the district's standard benefit package, the contract also provides for a car allowance of \$550 per month, an annual \$15,000 (increased to \$25,000 in March 2006) contribution to a tax sheltered annuity or insurance plan, \$150,000 of term life insurance, and up to \$3,000 per year for other insurance at the discretion of the superintendent. During the four years ended June 30, 2006, plus the six months ended December 31, 2006, the superintendent was apparently overpaid by approximately \$158,400.

A. Disbursements related to the superintendent's employment contract included the following loans and overpayments to the superintendent:

1. From December 2004 to August 2006, the superintendent received 12 unauthorized salary advances. The advances were reimbursed by forgoing subsequent salary payments; however, in three instances, the advances were not reimbursed for over 100 days after they were received. The last advance was received July 5, 2006 and reimbursed October 20, 2006 (107 days). In addition, during the four years ended June 30, 2006, the superintendent received additional salary amounts totaling approximately

\$2,000. Some required withholdings were not deducted and other adjustments were made. These were not specifically authorized by his employment contract or the school board.

2. The district paid interest totaling approximately \$39,000 on the superintendent's personal loans against his insurance policies during the three years ended June 30, 2006. The premium notices for the superintendent's discretionary insurance benefits included both the premiums and interest charges on the superintendent's loans against the policies.
3. Car allowances paid to the superintendent exceeded the amount authorized by his employment contracts by \$5,400 during the three years ended June 30, 2006, and an additional \$900 for the six months ended December 31, 2006. From July 2002 to February 2006, the superintendent was paid a \$550 per month car allowance as indicated on his signed employment contract for the four years ended June 30, 2006. In February 2006, the Assistant to the Superintendent provided a memo to the Payroll Specialist indicating the car allowance should have been \$700 per month and requested the \$700 rate be applied retroactive to July 2003. The memo was accompanied by a copy of a page supposedly from the superintendent's contract showing the \$700 car allowance rate; however, the actual contract signed by the superintendent indicates the car allowance was \$550. Based on the memo, the superintendent received the retroactive payments requested and was paid \$700 per month for the car allowance from that time forward.

A new contract approved by the school board in March 2006, also indicates the car allowance rate is \$550 per month. However, two board members modified the contract in May 2006 to change the car allowance to \$700 per month and the term life insurance coverage to \$160,000. The board meeting minutes do not indicate the changes were authorized. As a result, the car allowance rate should have remained at \$550 per month, and the term life insurance coverage at \$150,000.

Salary advances and payment of the superintendent's personal financial obligations represent loans and grants of public funds, and as such, are prohibited by the Missouri Constitution. Article VI, Sections 23 and 25 of the Missouri Constitution prohibit the loaning or granting of public funds to individuals. In addition, all compensation paid to the superintendent should be based on a signed contract approved by the school board. The Board should recoup overpayments made to the superintendent and interest payments made on his behalf, and ensure all future payments comply with contract terms. In addition, all modifications to the superintendent's contract should be approved by the school board and documented in the board meeting minutes.

B. Procedures for administering the superintendent's leave benefits are in need of improvement.

1. The superintendent carried forward more vacation days than his contract allowed. At the end of the 2003-2004 school year, the superintendent carried forward 25 more vacation days than allowed by his contract. At the end of the 2004-2005 school year, he carried forward 5 more vacation days than allowed by his contract. The board meeting minutes do not indicate the excess accumulations were authorized by the board.

The School Board should establish procedures to ensure the superintendent's accumulated vacation balance complies with his contract, unless exceptions are approved by the board and are documented in the board meeting minutes. In addition, the Board should consider deducting 30 days from the superintendent's current vacation balance to correct unauthorized excess balances carried forward from prior years. If this is done, it will leave the superintendent with a negative vacation balance of one and one-half days as of September 30, 2006.

2. The superintendent was paid for unused vacation days without the approval of the board. The superintendent was paid \$27,551 for 45 vacation days in June 2005 and \$26,122 for 40 vacation days in February 2006. The payments were approved by the board president, but were not submitted to the full board for approval.

The superintendent's employment contract limits the number of vacation days that may be carried forward each year and does not authorize the superintendent to be paid for unused vacation days. Any payment to the superintendent for unused vacation days should be subject to the approval of the board and documented in the board minutes.

3. Most of the superintendent's leave usage was not recorded in the district's leave records. At September 30, 2006, the district's leave records indicated the superintendent had used no vacation days and only one sick day since the inception of his employment contract. At our request, the superintendent prepared a list of his leave usage since the inception of his district employment. He identified one and one-half vacation days and fourteen sick days, including four personal days, that had been used, but had not been recorded in the district's leave records. On October 5, 2006, the district's leave records were updated to record the additional leave usage.

It appears the leave usage was not recorded in the district's leave records because the superintendent did not properly report his absences, as required by district policy. The School Board should periodically review

the district's leave records to ensure the superintendent's leave usage is recorded in accordance with district policy.

4. The superintendent's employment contract does not indicate whether his sick leave can be accumulated and paid upon termination. The contract only states that paid sick days are to be utilized during the year. District policy allows some district employees to accumulate sick leave up to a specified maximum and sell it back to the district upon termination if certain conditions are met. At June 30, 2006 the superintendent's sick leave balance was 99 days.

To avoid confusion, the superintendent's contract should clearly state whether sick leave may be accumulated, whether it may be paid upon termination, and if so, the formula for calculating the payment.

- C. There were several concerns regarding the annuity and insurance payments made for the superintendent.

1. The district over funded the superintendent's annuity by \$15,000 for the year ended June 30, 2006. The superintendent's contract amended in March 2006 indicated the annuity payment increased from \$15,000 to \$25,000 per year. The district, however, paid a total of \$40,000 to the annuity for the year.
2. The district paid more than required for the superintendent's insurance premiums. As indicated above, the superintendent's contract authorized payments of \$3,000 per year for insurance premiums at the discretion of the superintendent. However, the district paid premiums totaling approximately \$45,000 for this additional insurance during the four years ended June 30, 2006 and approximately \$12,500 during the six months ended December 31, 2006. As a result, the district paid approximately \$42,500 more than required by the contract. In addition, these payments were not reported as compensation on the superintendent's IRS Form W-2.

The School Board should establish procedures to ensure benefit payments for the superintendent do not exceed the limits documented in his employment contract and should recoup all overpayments.

3. Untaxed contributions to the superintendent's tax sheltered annuities appear to exceed the annual addition limits and elective deferral limits established by the IRS. During the year ended December 31, 2005, the superintendent contributed \$23,850 of untaxed vacation pay to his tax sheltered annuity and the district provided untaxed contributions totaling \$45,000. During the year ended December 31, 2006, the superintendent contributed \$22,000 of untaxed vacation pay and the district provided

untaxed contributions totaling \$50,000. These amounts exceed limitations established by IRS Publication 571

The School Board should establish procedures to ensure untaxed contributions to the superintendent's annuities do not exceed IRS limits.

4. The superintendent's contract requires annual payments to the superintendent's tax sheltered annuity. The \$25,000 annual payment for the 2006-2007 school year was paid in July 2006. As a result, the benefit was provided before most of the service was received.

To achieve a better matching of benefits earned with benefits paid, contributions to the superintendent's tax sheltered annuity should be made each pay period.

- D. The \$550 monthly car allowance included in the superintendent's contract does not appear reasonable. Per the contract, the car allowance is for mileage within the district (12 square miles). At the district mileage rate of \$.365 per mile, the superintendent would have to drive 1,507 miles per month or more than 72 miles per day to earn a \$550 reimbursement.

The School Board should set the superintendent's car allowance at a reasonable rate, based on the estimated number of miles driven within the district.

- E. The district did not provide the superintendent with the amount of term life insurance required by his contract. In October 2006, the district was providing \$32,500 of term life insurance for the superintendent.

As indicated above, the superintendent's employment contract states he is to be provided \$150,000 of term life insurance.

WE RECOMMEND the School Board:

- A. Discontinue the practice of issuing salary advances, recoup overpayments made to the superintendent and interest payments made on his behalf, and ensure all future compensation complies with the superintendent's signed employment contract. In addition, all modifications to the contract should be approved by the board and documented in the board meeting minutes.
- B.1. Establish procedures to ensure the superintendent's accumulated vacation balance complies with his contract, unless exceptions are approved by the board. All exceptions authorized by the board should be documented in the board meeting minutes. In addition, the School Board should deduct 30 days from the superintendent's current vacation balance to correct unauthorized excess balances carried forward from prior years.

2. Require board approval prior to paying the superintendent for unused vacation days. Approval of any such payments should be documented in the board meeting minutes.
 3. Periodically review the district's leave records to ensure the superintendent's leave usage is recorded in accordance with district policy.
 4. Amend the superintendent's employment contract to clearly state whether sick leave may be accumulated, whether it may be paid upon termination, and if so, the formula for calculating the payment.
- C.1
- &2. Establish procedures to ensure benefit payments for the superintendent do not exceed the limits documented in his employment contract. In addition, the School Board should recoup all benefit overpayments. All taxable compensation should be reported properly to the IRS.
3. Establish procedures to ensure untaxed contributions to the superintendent's annuities do not exceed IRS limits.
 4. Amend the superintendent's contract to require future tax sheltered annuity payments to be made each pay period.
- D. Set the superintendent's car allowance at a reasonable rate, based on the estimated number of miles driven within the district.
- E. Establish procedures to ensure the superintendent is provided the amount of term life insurance indicated in his employment contract.

AUDITEE'S RESPONSE

- A. *The District has stopped making salary advances to any employees, including the superintendent, and agrees to ensure that all future compensation complies with the superintendent's signed employment contract. The Board agrees that all modifications to the contract should be approved by the board and documented in the board meeting minutes. The District has recouped all salary advances made to the superintendent as of December 31, 2006. The Board will meet immediately following the public release of the audit to address additional responses to this recommendation with regard to the payment of interest payments and overpayment of salary.*
- B.1. *The Board of Education agrees to ensure the superintendent's accumulated vacation balance complies with his contract, unless exceptions are approved by the board. Any exceptions will be authorized by the board and be documented in board meeting minutes. The Board has directed that thirty (30) days be deducted from the superintendent's*

current vacation balance to correct unauthorized excess balances carried forward from prior years.

- B.2. The School Board has implemented this recommendation. Any payments for unused vacation days will be authorized by the Board of Education and documented in the board meeting minutes.*
- B.3. The School Board has implemented this recommendation. The School Board has directed the superintendent to call all board members, the chief financial officer and human resources director via an “all call” so that the superintendent’s leave is recorded accurately and in compliance with district policy.*
- B.4. The Board has implemented this recommendation by clarifying that the superintendent is to follow the same policy and procedure set forth for all district administrators concerning sick leave accumulation and pay upon termination.*
- C.1*
- &2. The School Board has established procedures to ensure benefit payments for the superintendent do not exceed the limits documented in his employment contract and has reported all taxable compensation to the IRS. The Board will meet immediately following the public release of the audit to address additional responses to this recommendation with regard to the benefit overpayments.*
- C.3. The School Board has implemented this recommendation.*
- C.4. The School Board has directed the chief financial officer to arrange with the superintendent’s annuity company to pay a pro rated amount per pay period rather than one lump sum each year.*
- D. The School Board plans to implement this recommendation upon executing the next contract with the district’s superintendent.*
- E. The School Board will address this issue immediately following the public release of the audit.*

4. Procurement of Technology Equipment and Services
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The district paid a vendor approximately \$1.5 million for Internet and wireless access, network maintenance, and technology support and equipment during the two years ended June 30, 2006. Concerns were noted regarding how this vendor was selected for various services and the lack of approved contracts with this vendor.

The district has used this vendor for over 10 years. Bids or proposals have not been solicited for technology support or equipment. Prior to 2006, the vendor submitted the only proposals for Internet and wireless access service and network maintenance. These

services are a part of the e-rate program which is a cooperative purchasing program with the federal government and vendors to provide discounted rates to participating school districts. In January 2004, the previous Director of Research and Evaluation signed contracts with this vendor for network maintenance services through June 2007. These contracts were not signed by the school board.

During 2005, problems were noted concerning this vendor including charging the district \$1,993 for a refurbished switch the vendor had purchased over the Internet for \$199 and overcharging the district by \$14,000 by installing smaller server cabinets than those listed on the invoice. It appears that because of these problems, the previous Director of Research and Evaluation requested new proposals for network maintenance services in January 2006. The vendor and another company both submitted proposals. The previous Director of Research and Evaluation evaluated the two proposals using the e-rate criteria and format and determined that the second company's proposal was the best, and entered into a written contract with the second company. This contract was also not submitted to or approved by the board; however, as discussed in MAR 5, many contracts were not approved by the board. A total of \$6,800 was paid to this company for services.

In March 2006, the board approved amendments to the contracts with the original vendor to address some of the problems noted. In addition, the \$14,000 overpayment was refunded to the district. The school board did not honor the contract with the second company signed by the previous Director of Research and Evaluation.

To ensure the district is getting the best possible goods and services at the best price, proposals or bids should be requested for all computer services and equipment and all proposals and bids should be submitted to the school board along with documented evaluations of the bids or proposals. The Board should enter into written contracts with all service and equipment providers detailing the responsibilities of each party involved, any specific requirements and responsibilities, such as expecting all goods purchased to be new, and to provide protection to all parties. Section 432.070, RSMo, requires contracts of political subdivisions to be in writing.

WE RECOMMEND the School Board request bids or proposals for all computer services and equipment. All proposals and evaluation documentation should be submitted to the board for their decision. The Board should enter into written contracts with all service and equipment providers detailing the responsibilities of each party involved. In addition, the contracts should contain the district's specific requirements for the equipment and services to be provided.

AUDITEE'S RESPONSE

The School Board has implemented this recommendation by receiving proposals for the 2007/2008 school year through the e-rate process, which were presented to the Board for their decision prior to submitting to the federal government for approval.

5.**Bidding and Contracts**

Competitive bids or competitive requests for proposals were not obtained for several purchases and the board meeting minutes did not document the reasons for rejecting the lowest bid for a construction project. In addition, the district did business with a company which gave the appearance of a conflict of interest. The business office does not review compliance with the district's bidding policy and contractual terms prior to paying invoices. Written contracts were not obtained from some vendors and some contracts were not approved by the board, as required by board policy. The district issued requests for proposals that were not thorough or adequately planned and contract amendments and change orders were not properly documented and approved by the board.

- A. Several purchases were not competitively bid or competitive requests for proposals were not obtained. The district's bidding policy only requires competitive bidding for construction of facilities that are projected to exceed \$15,000, insurance contracts, and bank depository services, as required by state law. In addition, the Facilities Department has an informal policy of soliciting bids or requesting proposals for projects that are expected to exceed \$25,000. The district's current bidding procedures could be made more effective by formally adopting a more comprehensive policy. The following are examples of purchases during the two years ended June 30, 2006, for which the district did not follow a competitive bid process or request competitive proposals:

<u>Item</u>	<u>Cost</u>
Alternative education services	\$ 2,020,188
Custodial equipment and supplies	410,743
School renovations at various locations	343,557
Educational software	250,000
Asphalt paving	191,588
Construction management services for the multipurpose building	181,026
Maintenance services for heating, ventilation, and air conditioning systems	137,538
Audit services	81,464
Church property renovations	79,253
Professional development services for high school personnel	46,375
Software training sessions	41,625
Security guard services for middle schools	24,800

In each example above, the district indicated they only obtained a proposal from one vendor and no other vendors were considered.

In addition, during the 06-07 school year, the district did not request competitive proposals for classroom learning material purchases totaling \$364,034.

Competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the district's business.

A more comprehensive policy would require bidding or competitive requests for proposals and would identify specific procedures that are required for all types of disbursements. Bids could be handled by telephone quotation, sealed bids, or advertised sealed bids. Different approaches may be appropriate depending on the dollar amount of the purchase. Written documentation of bids also provides evidence that the board has complied with its procurement policy. Bid documentation should include a list of vendors contacted, a copy of the bid specifications, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

- B. Board meeting minutes did not document the reasons for rejecting the lowest bid for a construction project. The board received two bids for the construction of a new building at the high school. In October 2004, the board accepted the higher bid of \$1,574,000, which was \$135,000 more than the lower bid. Although the original contract amount was lowered, it still exceeded the lower bid and was then not sufficient to cover the total cost, as discussed in G below.

Bidding procedures for major purchases provide a framework for economical management of district resources and help assure the board that it receives fair value by contracting with the lowest and best bidders. If other than the lowest bid is selected, the reasons should be adequately documented.

- C. The district paid approximately \$43,000 to a moving company owned by a board member's father during the year ended June 30, 2006. The district requested bids from two vendors for a portion of this work, but only one vendor responded. Board minutes do not indicate that the related board member abstained from votes approving payments to the related party business.

To help prevent conflicts of interest or the appearance of conflict of interest, the district should obtain competitive bids. In addition, board members should abstain from votes to approve payments to related parties.

- D. The business office does not always review for compliance with the district's bidding policy and contractual terms prior to paying invoices. Bids are solicited and contracts are signed by the various departments which are then responsible for maintaining bid and contractual documentation and ensuring invoices comply with contract terms. Copies of the bids and contracts are not provided to the business office for review prior to paying invoices. As a result, the district has no

assurance that the bidding policy and contractual terms are being enforced. The Board should ensure that the business office compare invoices to bids and contractual terms prior to paying invoices to ensure the district's bid policy is enforced, payments comply with contractual terms, and amounts paid for goods and services are reasonable. If business office personnel had compared invoices to contractual terms, the conditions at E, F, and G. below may have been detected and corrected on a timely basis.

- E. Written contracts were not properly executed with some vendors used by the district. Examples of services purchased without written contracts during the two years ended June 30, 2006, include the following:

<u>Services</u>	<u>Cost</u>
Maintenance services	\$ 137,538
Software training sessions	41,625

The board approved payments to some of these vendors for over a year without having a written contract. Additionally, the invoices were not always detailed and some were not located (see MAR 6.)

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. The written agreements should be prepared and signed before services are rendered.

- F. Some contracts were not approved by the board. Examples of contracts that were not approved by the board during the two years ended June 30, 2006, include:

<u>Contract</u>	<u>Contract Amount</u>
Alternative education services	\$ 2,020,188
School renovations	343,557
Security services	24,800
Moving services	18,357

Board policy DJF explicitly states no contract will be made without an affirmative vote from a majority of the whole board. The policy does not authorize anyone other than the board to approve contracts. To improve efficiency, the board should consider modifying the policy to establish a dollar limit for contracts requiring board approval and guidelines for approving contracts below the limit. All contracts exceeding the established limit should be approved by the majority of the board and included in the board minutes to document compliance with board policy.

- G. The district issued requests for proposals that were not thorough or adequately planned and contract amendments and change orders for various projects were not properly documented and approved by the board. Numerous projects required change orders or contract amendments because the district omitted services from the original requests for proposals. Examples of projects for which change orders or contract amendments were necessary due to inadequate planning and/or the change orders were not documented and approved by the board during the two years ended June 30, 2006, are as follows:

<u>Project</u>	<u>Original Contract Amount</u>	<u>Amount Disbursed</u>
Energy management	\$ 1,296,795	2,407,702
Construction of multipurpose building	1,558,400	1,680,144
Moving services	18,357	29,605
Asphalt paving at Gibson Elementary School	24,335	26,470
Asphalt paving at Glasgow Elementary School	22,885	23,970
Asphalt paving at Central Middle School	17,385	18,470

On February 23, 2005, the board approved a \$1,296,795 contract with the energy management vendor to install and monitor energy management equipment for the high school, Central Middle School, and Moline Elementary. Eleven days later, a change order for \$736,600, was approved by the board to add the Danforth, Gibson, Glasgow, Lemasters, Meadows, and Highland schools and the administration and transportation buildings to the contract. In total, there were five change orders to this contract that increased the amount paid to \$2,407,702.

There were three change orders totaling \$121,744 for various modifications regarding the construction of the multipurpose building. The change orders were not approved by the board.

The moving service vendor originally submitted a bid of \$15,000, but the bid did not include all services required by the request for proposal. Five days after the bid submission deadline, the vendor submitted an addendum which included more of the services required and increased the bid by \$3,357 (23 percent). The proposal listed three weeks of work. After the work was completed, the company performed moving services for an additional two weeks costing an additional \$11,248.

Additional services were solicited from the paving vendor, but the contracts were not amended.

During the two years ended June 30, 2006, the district's lawn care vendor was paid \$4,142 for work performed at the Danforth Intermediate Academy and Westview Middle School. The district acquired the properties after the original lawn care contract went into effect in April 2003; however, the contract was not amended to authorize the additional work.

The district should thoroughly plan all projects and review requests for proposals for completeness to minimize the need for change orders. The district should also obtain contract amendments or change orders for all significant changes to contracts to ensure any additional disbursements represent valid and appropriate costs to the district. If the scope of a project changes substantially, consideration should be given to rebidding the project. Board approval of the contract amendments and change orders should be documented in the board meeting minutes.

WE RECOMMEND the School Board:

- A. Adopt a more comprehensive bid policy which requires bidding and establishes bidding guidelines for other types of disbursements. Such bid policies should include criteria on how bids are to be solicited and when formal advertising should be used. Documentation of bids received and the bid process should be retained. If sole source procurement is necessary, the district should retain documentation of these circumstances.
- B. Maintain complete documentation for all bids received, including reasons for accepting other than the lowest bid.
- C. Obtain competitive bids prior to contracting with possible related parties and ensure board members abstain from voting to approve payments to related parties.
- D. Require the business office to review compliance with bid and contract terms prior to paying invoices.
- E. Ensure formal written agreements are prepared for services rendered or obtained. The agreements should be prepared and signed before services are rendered.
- F. Establish a dollar limit for contracts requiring board approval and guidelines for approving contracts below the limit. The School Board should ensure all contracts exceeding the established limit are approved by the majority of the board and included in the board meeting minutes to document compliance with board policy.
- G. Plan all projects more thoroughly and review requests for proposals for completeness to minimize the need for change orders. In addition, the School Board should obtain contract amendments or change orders for all significant changes to contracts and consider rebidding projects that change substantially in

scope. Approval of contract amendments and change orders should be documented in the board meeting minutes.

AUDITEE'S RESPONSES

A,B,
D,E,

&F. *The District will draft a procurement handbook to be approved by the Board of Education to go into effect July 1, 2007 which will address these recommendations.*

C. *The School Board agrees that it is important to avoid conflicts and appearances of conflicts and will immediately implement this recommendation.*

G. *The district has implemented this recommendation.*

6. Disbursements

Several problems were noted concerning disbursements. The Business Office Procedures Manual has not been approved by the school board. In addition, credit card payment procedures are lacking, cash advances are not substantiated, supporting documentation was not retained for some disbursements, and some invoices did not contain sufficient detail. Several disbursements did not appear reasonable and necessary. Policies need to be established to limit local food and beverage purchases and out of state travel. Invoices are not adequately reviewed for mathematical accuracy, some invoices have been paid twice, and expense accounts are not compared to the district's credit card bills to prevent overpayment.

A. The school board has not approved the Business Office Procedures Manual. The manual includes guidelines for preparing and submitting purchasing, payment, and budget transfer documents, explains payroll procedures and employee benefits, defines accounting codes and allowable and unallowable expenses, and establishes policies regarding the use of district credit cards and requesting payments prior to board approval. While these policies could assist the district in several areas, they have not been approved and, as indicated below, often have not been adhered to.

To ensure policies and procedures will be consistently enforced, the Business Office Procedures Manual should be approved by the board and provided to district employees.

B.1. Credit card payment procedures need improvement. Charges totaling approximately \$240,000 were made on the district's four credit cards during the two years ended June 30, 2006. During this time period the district paid late fees, finance charges, and over limit fees totaling approximately \$1,100. District policy does not require credit card receipts to be submitted to the business office

until after the credit card statements are received. As a result, it is difficult to monitor the compliance with the card limits and to reconcile the statements with the receipt slips before the payment is due.

Credit card receipts should be submitted to the business office immediately after each card use. This would enable the business office to effectively monitor the balance on each card and to ensure the statements are supported, can be reconciled with the receipts, and paid on a timely basis.

2. Supporting documentation was not retained for some credit card purchases. In addition, some payment documentation was not itemized. Receipts were missing for 42 of the 48 monthly credit card statements reviewed. For example, a May 2005 credit card statement included charges of \$9,336 for which no supporting documentation was provided. The charges were for registration fees, airfare, motels, and expenses at local merchants and restaurants. In addition, three restaurant receipts supporting the statement were not itemized.

Without itemized supporting documentation, the district cannot determine whether the credit card purchases were reasonable and necessary uses of public funds.

- C. Board members and the superintendent did not account for cash advances and did not return or account for unused funds. In addition, the district did not report the unsubstantiated advances on the board members' 1099 forms or the superintendent's W-2 form. Board members and the superintendent can receive cash advances of \$300 and \$500, respectively, per trip for travel expenses to attend training. Cash advances to board members and the superintendent totaled \$3,300 and \$2,800, respectively, for the two years ended June 30, 2006.

Receipts were not submitted and unused funds were not returned for any of the cash advances paid to board members. We reviewed two of six advances paid to the superintendent and found that receipts submitted did not equal the advance and no unused balances were returned to the district. In one instance, all receipts submitted for a \$500 cash advance were credit card slips for expenses charged to the district credit card assigned to him. For another \$500 advance, \$324 was substantiated by receipts; however, additional receipts submitted had already been paid with the district credit card. The unsubstantiated balances were not returned. Furthermore, receipt slips were not submitted by the superintendent on a timely basis. In November 2005 and 2004, the superintendent submitted receipt slips for advances he received in July 2005 and 2004, respectively. Also, the superintendent waited until August 2006 to return \$100 of unused funds from a June 2004 cash advance.

Although district policy requires receipt slips to be submitted for all cash advances, the policy is not enforced. In addition, Section 105.272.3, RSMo, provides that the voucher for expenses actually and necessarily incurred and any

balance of the advance not used be submitted to the district within ten days after the expense was incurred. IRS regulations provide that if business expenses are not substantiated or the amounts in excess of expenses are not returned within a reasonable period of time, the amount paid is treated as paid under a nonaccountable plan and is subject to applicable withholdings and taxes.

- D. Supporting documentation was not retained for some disbursements and some invoices did not adequately explain the work performed. For example, there was no supporting documentation for a \$73,000 payment to a maintenance company and invoices for other payments to the company indicated the locations served, but did not indicate what services were provided. The vendor was paid a total of approximately \$137,000 during the year ended June 30, 2006. Furthermore, the district could not provide a copy of the contract with the vendor. District employees indicated the vendor cleans the heating and cooling units and replaces filters at various school buildings, because the district does not have enough maintenance employees to do this work on a timely basis.

Other payments without supporting documentation included some checks issued for alternative education services, catering services, construction, security services, theater tickets, and employee benefits. Also, the district contracted with a vendor to audit the transportation department and perform an employee survey, but the district could not provide a copy of the audit or the survey results. During the year ended June 30, 2006, this vendor was paid \$20,900 for internal audits, surveys, and training.

Without detailed supporting documentation, the district cannot determine whether the disbursements were reasonable and necessary uses of public funds.

- E. Some disbursements did not appear reasonable and necessary.
1. The district paid approximately \$7,000 for artwork and framing of 17 prints with non-educational themes located in individual offices, including 11 prints, costing \$5,253, observed in the superintendent's office. Most of the framing costs exceeded the cost of the artwork. In addition, the district credit card assigned to the superintendent was used to make a \$102 purchase at an art gallery in Africa, but no supporting documentation was retained for the purchase and no one could identify what was purchased.
 2. The district paid approximately \$4,900 for lodging, meals, and refreshments and approximately \$700 to rent a vehicle driven 183 miles for a two-day board retreat held at a lodge near Hermann, Missouri. In addition, the district credit card was used to pay a \$141 bill at a winery in Hermann, Missouri during the retreat.

3. The district made two payments totaling \$600 for eight spots in a charity golf tournament. Only four of the eight golf tournament participants were identified and the business purpose of the payments was not documented.
4. The district paid \$1,151 in state sales taxes on a \$15,759 payment to a hotel for the 2006 prom. The district did not present proof of its tax exempt status to the vendor and the invoice was not closely reviewed before the payment was made.
5. The district paid \$585 for the superintendent's four subscriptions to the 2004-2005 season of a local theater company. The district also paid \$595 to renew the subscriptions for the following season.
6. The district paid \$1,466 for 15 unused motel rooms for various conferences because the reservations were not canceled on a timely basis.
7. The district reimbursed an employee \$430 for a five-day car rental and \$60 for gas to travel approximately 360 miles round trip to attend a conference at the Lake of the Ozarks. At the district's rate of \$.365 per mile, mileage reimbursement would have been only \$131. The reason for renting a car instead of reimbursing mileage was not documented.
8. The district paid \$315 to rent a convertible driven 55 miles in a 3-day period for the board to be in a parade.
9. The district credit card assigned to the superintendent was used to pay \$320 to a local YMCA. There was no receipt for the payment and the business purpose of the payment was not documented.
10. For the 48 credit card statements reviewed, meals contained charges for alcoholic beverages totaling approximately \$100. District policy indicates alcohol purchases are unacceptable expenses.
11. Software training sessions totaling \$41,625 were provided by the superintendent's fiancée and were not supported by a written contract. It is unclear why these training sessions were needed as the contract with the software vendor included three site visits per building to conduct training sessions. The site visits were not tracked by the district; therefore, it is unknown if all site visits were used before using an outside vendor to provide training on the same software.

The district should ensure all disbursements are reasonable, necessary, and comply with district policies. The least expensive option should be used whenever possible, unnecessary costs should be avoided, and the business purposes of all disbursements should be clearly documented.

- F. District credit cards were frequently used to purchase meals at local restaurants and the district often provided food and beverages for meetings involving district personnel. Meals at local restaurants were charged on district credit cards every month during the two years ended June 30, 2006. The purposes of the meals and those attending were not always documented. In addition, checks totaling approximately \$53,000 were issued to local vendors for banquets and catered meals during the same time period. The meals were for holiday luncheons, awards ceremonies, training sessions, administrator or staff meetings, new teacher orientations, a coordinator's retreat, a back-to-school luncheon for administrators, and clergy coalition meetings. For two clergy coalition meetings, the number of meals purchased was not supported by the signed attendance list. The district does not have any written policies indicating when food will be provided for meetings or imposing any limits on such purchases. Furthermore, some meal expenses indicated multiple guests that were not identified. For example, an employee was reimbursed \$32 for a meal receipt that stated there were four guests, but the guests were not identified. As a result, the business purpose of some of the costs could not be verified.

To ensure public funds are spent wisely, food and beverage expenses paid by the district should be reasonable and necessary for conducting district business and limits should be established for such purchases. In addition, attendance lists and business purposes should be documented for all food and beverage purchases.

- G. The district has no clear guidelines or limits on out-of-state travel. During the two years ended June 30, 2006, disbursements for travel and conventions, board training, and the superintendent's training totaled \$865,780, \$85,780, and \$62,383, respectively, according to the district's accounting records. In addition, as indicated in MAR number 2, some additional travel and training costs were recorded incorrectly in the accounting records, so they are not included in these totals.

Over one-half of the district's credit card statements for the two years ended June 30, 2006, contained charges for out of state travel. For example, a May 2005 district credit card statement contained out of state airfare and motel charges totaling \$12,318 and \$10,497, respectively. During the two years ended June 30, 2006, school board members and/or employees traveled to conferences in many cities including Atlanta, Georgia; Orlando, Florida; Dallas and San Antonio, Texas; Las Vegas, Nevada; San Diego, San Francisco, and Los Angeles, California; Jackson, Wyoming; Santa Ana, Arizona; and Washington, DC,. In addition, trips were made to Johannesburg, South Africa and Ottawa, Ontario, Canada. The school board normally sends representatives to five annual conferences. The superintendent and each board member can attend any or all of the five conferences and the superintendent also attends other conferences. Administrative employees also attend these conferences and other employees are allowed to attend out of state conferences if approved by the professional development committee for their school.

To ensure public funds are spent wisely, travel expenses paid by the district should be reasonable and necessary for conducting district business and limits should be established for such purchases.

- H. Invoices are not adequately reviewed for mathematical accuracy and some invoices have been paid twice.
1. An invoice from a custodial supply vendor was submitted and paid twice. The initial invoice totaling \$4,085 was paid on November 28, 2005; however, the initial invoice contained a mathematical error, so the vendor submitted a second invoice with the correct total of \$4,275 and the district paid the full invoice amount, instead of paying the difference.
 2. A \$481 invoice from the custodial supply vendor mentioned in 1. above was paid twice on the same check. The check request form listed the invoice number and amount twice, so the vendor was overpaid by \$481.
 3. A \$490 invoice from a general contractor was submitted and paid twice. The invoice was included in payments made on August 20, 2004, and August 25, 2004.
 4. The district did not receive the entire refundable deposit amount back for the 2006 high school prom. The district was required to pay a \$1,000 deposit; however, the final invoice submitted to the district was only reduced by \$500 for the refundable deposit. There was no documentation explaining why the vendor kept the remaining \$500.

The district should review invoices for mathematical accuracy and ensure that invoices are not paid twice. The district should also attempt to recoup any overpayments.

- I. Expense accounts are not compared to the district's credit card bills. A board member was reimbursed for a motel bill paid with the district's credit card. The board member's expense account paid on December 17, 2004, included a motel receipt for \$835. However, the receipt and the district's credit card statement paid on December 17, 2004, indicate the expenses were paid on November 21, 2004, with a district credit card. The board member reimbursed the district after we brought the matter to the district's attention. In addition, as noted in C above, the superintendent submitted receipts paid with a district credit card to substantiate some of his travel advances.

Expense accounts should be compared to the district's credit card bills prior to payment to ensure the expenses have not already been paid.

WE RECOMMEND the School Board:

- A. Approve the Business Office Procedures Manual and distribute it to employees as necessary.
- B. Require credit card receipts be submitted to the business office immediately after each card use, monitor the balance of each card, and ensure credit card statements are reconciled to the receipts and paid on a timely basis.
- C. Establish procedures to ensure cash advances are properly accounted for and reported to the district. Otherwise, the cash advance should be reported on the individual's 1099 form or W-2 form and subject to applicable withholdings and taxes. In addition, a policy should be established to disallow future cash advances to individuals that do not comply with the district's cash advance policies and procedures. Any cash advances not adequately supported should be repaid to the district.
- D. Require detailed supporting documentation be submitted and retained for all disbursements. In addition, the district should retain documentation of all audit and survey results.
- E. Ensure all disbursements are reasonable, necessary, and in compliance with district policies. In addition, the School Board should use the least expensive option whenever possible, avoid unnecessary costs, and ensure the business purpose of all disbursements is clearly documented.
- F. Establish a policy to specify when food and beverages will be provided for meetings, to set limits on such purchases, and to require attendance lists and business purposes to be documented for such purchases.
- G. Establish a policy to set limits on out of state travel.
- H. Ensure invoices are reviewed for mathematical accuracy and are not paid twice. In addition, the district should attempt to recoup any overpayments.
- I. Establish procedures to ensure expense accounts are compared to the district's credit card bills prior to payment.

AUDITEE'S RESPONSE

A. *The School Board will implement this recommendation on or before July 1, 2007.*

B,D,

H&I. *The School Board has implemented these recommendations.*

- C. *The School Board directs that no cash advances be allowed, with the exception of per diems for meals, if deemed necessary.*
- E. *The District has implemented this recommendation. The School Board directs the administration to consider making one employee responsible for all district travel arrangements for all employees and board members.*
- F. *The School Board agrees with this recommendation and directs the administration to develop procedures to regulate when providing food and/or beverages is appropriate; to require attendance lists and business purposes to be documented when providing food and beverages for meetings; and to outline reasonable limits on costs when appropriate to provide food and/or beverages.*
- G. *The School Board agrees with this recommendation and will implement it when addressing the 2007/2008 budget.*

7.	Personnel Policies and Procedures
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The School Board has not approved the Human Resources Handbook. Personnel policies and procedures are in need of improvement. The district has not developed a master staffing plan and adequate procedures for identifying related parties. Procedures for hiring employees and maintaining employment documentation are in need of improvement, job descriptions have not been developed for some positions, procedures for setting some salaries are not in compliance with board policy, salary scales and percentage raises were not approved by the board, unused vacation leave was carried over or paid in violation of district policy and absences are not always reported as they occur. Procedures for documenting and monitoring compliance with Family Medical Leave Act (FMLA) requirements and processing employee terminations are in need of improvement. The School Board does not review and approve annual extra duty salary schedules and has not adopted a policy regarding extra duty contract payments during long-term absences.

- A. The school board has not approved the Human Resources Handbook. The handbook outlines policies and procedures regarding hiring and termination procedures, leave policies, employee benefits, and other personnel matters. As indicated below, the policies and procedures are not always enforced.

To ensure policies and procedures will be consistently enforced, the Human Resources Handbook should be approved by the board and distributed to all employees.

- B. The district has not developed a master staffing plan as part of the annual budget. A master staffing plan would identify each position in the district, as well as the amount and source of funding budgeted for each position. The Director of Human Resources relies on information obtained from various principals and department supervisors to identify existing positions and vacancies. New

positions are subject to the approval of the superintendent and are not approved by the board until the position has been filled. The information provided by the principals and department supervisors can not be compared to the annual budget and staffing plan to ensure sufficient funding and positions are available. The lack of a master staffing plan may have contributed to the need for budget amendments.

A master staffing plan should be developed and maintained to identify all positions and vacancies and the funding budgeted for each position. It should be reviewed and approved by the board annually in conjunction with the adoption of the annual budget. Any positions added to the plan should be approved by the board with corresponding budget amendments to fund the new positions.

- C. The district has not developed adequate procedures for identifying related parties.
1. The district hired relatives of a board member and an administrator in violation of board policy. During the two years ended June 30, 2006, the district hired a sister and a nephew of a board member and a niece of a director. The board member did not participate in the votes to approve hiring her relatives. However, board policy BBFA states the board shall not hire an employee who is related within the fourth degree to any board member or administrator in the district.
 2. The district has not established adequate procedures for identifying related parties. The district's employment applications require applicants to identify any relationships with administrators, supervisors, or school board members. However, the Human Resources Department has not established procedures for updating related party information periodically. In addition, the department does not gather and maintain information from prospective and current employees regarding businesses owned by employees or their family members.

Related party information is necessary to ensure compliance with district hiring policies regarding employment of relatives. In addition, relationships with vendors need to be identified, documented, and reported to the business office to prevent conflicts of interest when purchasing goods and services and to ensure any related party transactions are identified and disclosed in the district's annual audit report. At our request, the district gathered related party information in June 2006 and identified the related parties listed in 1. above and at MAR number 5.

Procedures should be established to ensure related party information is obtained, updated as changes occur, and verified with each employee periodically.

D. Procedures for hiring employees and maintaining employment documentation need improvement.

- Several new and vacant positions were not posted or advertised. Board policies GCD and GDC indicate new or vacant positions will be posted for at least five business days in the district's buildings and publicized externally by other means as determined appropriate by the superintendent or designee.
- Some employment applications were completed after the employees were hired.
- Transcripts and/or teaching certificates were not always on file for employees in positions that require college credit and/or teaching certificates.
- Employment interviews are not always performed and/or documented.
- Reference lists are not always provided by applicants and reference checks are not always performed and/or documented.
- Criminal background checks and/or child abuse/neglect record checks were not completed for some employees. Board policies GCD and GDC indicate employment of professional and support staff, respectively, is contingent upon satisfactory outcome of a complete criminal and child abuse/neglect records check.
- Hiring recommendations were not always documented, so it was not always clear how hiring decisions were made. The Human Resources Handbook requires the use of a standardized form to document hiring recommendations, but this policy has not been enforced.
- Several hiring decisions were not approved by the board. Lists of new hires, terminations, promotions, and transfers are normally submitted to the board at the next meeting and approved as part of the consent agenda, as required by board policies GCD and GDC, but this procedure was not always followed.

To ensure all candidates for employment are qualified and treated equitably, all new or vacant positions should be posted or advertised, all candidates for employment should be required to complete an application and provide transcripts or teaching certificates (if applicable) and references prior to employment, all candidates should be screened by the Human Resources Department and suitable candidates should be interviewed, all interviews and reference checks should be documented and used to support written employment recommendations, and all candidates recommended for employment should submit to a criminal background check and a child abuse/neglect record check. In addition, all employment

documentation should be retained by the Human Resources Department and all hiring decisions should be approved by the board and documented in the board minutes.

- E. The district does not have written job descriptions for some positions. During the 06-07 school year, the district hired an Instructional Technology Specialist, but the district does not have a written job description for the position. In addition, during the 05-06 school year, an Assistant Principal was promoted to Associate Principal and given a \$6,000 salary increase. However, the district does not have a job description for the position, the employee's 06-07 contract indicates the employee's title is Assistant Principal, and the promotion was not approved by the school board.

Board policy GCA requires the superintendent to maintain a comprehensive and up-to-date set of job descriptions for the school system. Written job descriptions are necessary to document job qualifications and duties and to ensure all candidates for employment are evaluated against the same criteria. In addition, board policies GCD and GDC require all positions to be filled by the board only after receiving the recommendation of the superintendent or designee. Therefore, it appears all promotions decisions should be approved by the school board and documented in the board minutes.

- F. The following concerns were noted regarding pay rates:
 - 1. Procedures for setting salaries of administrative and central office employees are not in compliance with board policy. Administrative employees and various central office employees are allowed to negotiate for their salaries based on the median salary for the position in the area, as reported in a survey issued by Cooperating School Districts. It is not clear whether all administrative employees have been informed that negotiations are allowed and the School Board has not approved salary ranges for the positions. Some employees received substantial salary increases. For example, one employee's salary increased by \$10,820 (24 percent) in July 2005 and increased by an additional \$10,000 (18 percent) in November 2005, based on the salary survey. While the board approves each individual salary for these employees, the board does not compare salaries for similar positions for consistency.
 - 2. The instructional staff salary scale and the percentage raises for instructional staff, administrative staff, and support staff for the 05-06 school year were not approved by the board. The board minutes for May 10, 2005, indicate these issues were discussed, but do not indicate a vote was taken to approve the proposed salary scale and percentage raises.

Board policy GCBA indicates the superintendent shall prepare instructional staff salary schedules for approval of the Board of Education and implement the salary

schedules approved by the board. The policy also indicates the board will annually determine the salaries for administrative staff and will establish a range of salaries for each administrative position each year based on the median salary for similar positions in St. Louis County school districts. This policy should be enforced to ensure all employees are treated equitably. In addition, all salary scales and percentage raises should be approved by the board and documented in the board minutes before the annual budget is approved to ensure sufficient funding is available for all positions.

3. In August 2005, a secretary's salary increased approximately \$6,600 and the increase was not properly approved by the board and the reason was not adequately documented. Secretaries are paid from a salary scale based on their level and years of employment. The personnel file contained no explanation or approval for the increase and the employee is related to a board member.

All salary increases in excess of annual step increases should be properly approved and documented in the employee's personnel file.

G. The following concerns were noted regarding leave records and procedures:

1. Unauthorized payments of vacation leave were made and liabilities established because the superintendent and former CFO authorized some employees to carry over unused vacation leave, in violation of district policy.

The Human Resources Handbook indicates employees must use vacation before July 1 and unused vacation days do not carry over from year to year. In addition, board policy does not indicate that vacation time may be carried over from year to year, converted to annual leave, or paid when the employee does not terminate employment. Furthermore, the board meeting minutes do not indicate the board authorized vacation leave carryovers or payments of unused leave for ongoing employees. To ensure all employees are treated equitably, the vacation policy should be enforced consistently. The board should review the vacation leave carryovers and unused leave payments and determine whether corrective action is necessary.

2. District policy requires all employees except cooks, custodians, and bus drivers to report absences by contacting the district's automated absence reporting system one hour before the building start time. However, employee absences are not always reported as they occur. For example, leave usage for one employee absent for 11 days was not recorded until the employee returned to work because the employee had not contacted the district's reporting system and the employee's supervisor had not reported the absence. In addition, as discussed in MAR number 3, only

one hour of the superintendent's leave usage was reported and deducted from his leave balances during the four years ended June 30, 2006.

Failure to report absences as they occur violates district policy and increases the risk that the absences and leave usage will not be recorded, which could result in salary overpayments for employees that have already used all of their leave.

3. The district has not adopted procedures to ensure FMLA-qualified absences are supported by a medical certification, documented, and tracked for compliance with FMLA requirements. Although FMLA medical certification forms can be obtained from the Human Resources Department, procedures have not been established to ensure the forms are completed and returned to the department. In addition, procedures have not been established to document and track FMLA-qualified absences.

Under the FMLA, employees are entitled to a total of up to 12 work weeks of unpaid leave during any 12-month period for specified purposes. The district should establish procedures to ensure medical certifications are obtained to verify eligibility for FMLA protection and all FMLA-qualified absences are documented and monitored for compliance with the 12-week requirement.

- H. The district has not implemented standardized procedures for documenting and processing employee terminations and exit interviews are not performed. As a result, erroneous payments have been made to terminated employees. District records indicate 171 employees, excluding substitute teachers, left district employment during the year ended June 30, 2006. This represents approximately 17 percent of total employees at June 30, 2006. An employee separation form has been developed to document each termination; however, use of the form has not been enforced. Three former employees continued to receive salary payments from the district after leaving district employment, including one employee that received two extra payments. One of the overpayments, totaling approximately \$1,700 has not been recouped by the district. These former employees were not removed from the district's payroll because the Payroll Specialist was not aware of the terminations.

All terminations should be thoroughly documented and reported to the Human Resources Department and the Payroll Specialist to ensure all terminated employees are removed from the payroll. This could be facilitated by requiring the use of the employee separation form that has already been developed. Completed forms should be submitted to the Human Resources Department and copies should be provided to the Payroll Specialist. In addition, exit interviews should be performed and documented by the Human Resources Department to identify factors contributing to employee turnover.

I. The following concerns were noted regarding extra duty contracts:

1. During the year ended June 30, 2006, the district entered into 190 extra duty contracts totaling approximately \$485,000. The contracts are for extra duties which make major demands on the employee's time, such as coaching athletic teams, chairing an academic department, or sponsoring an activity or organization. Contract amounts are determined by the Director of Human Resources. The contract amounts ranged from \$250 to \$11,343. For each extra duty contract, the employee name and contract amount are submitted to the board for approval.

Board Policy GCKA indicates an extra-duty allowance salary schedule is to be established annually by the board. To ensure all employees are treated equitably and salaries are calculated consistently, the salary schedule for all extra duty contracts should be prepared and approved by the board annually, as required by board policy.

2. The school board has not adopted a policy regarding extra duty contract payments during periods of long-term absences and suspensions. An employee with two extra duty contracts totaling approximately \$8,000 was suspended with pay. In addition to his regular pay, he was paid approximately \$7,200 of the extra duty contract amounts during the suspension. In addition, an employee that did not work from March 2006 to the end of the school year received five extra duty payments totaling approximately \$250 in April 2006.

To ensure all employees are treated consistently, the School Board should adopt a policy indicating whether extra duty payments can be earned during periods of long-term absences and suspensions.

WE RECOMMEND the School Board:

- A. Approve the Human Resources Handbook and distribute it to all employees.
- B. Develop and maintain a master staffing plan. The plan should be reviewed and approved by the board annually and any positions added to the plan should be approved by the board with corresponding budget amendments.
- C.1. Ensure board hiring policies are strictly enforced.
2. Require the Human Resources Department to gather and maintain related party information and establish procedures to ensure the information is updated periodically. Information regarding related vendors should be provided to the business office.

- D. Ensure all new and vacant positions are posted or advertised. Require all candidates for employment to complete an application and provide transcripts or teaching certificates (if applicable) and references prior to employment. Reference checks and interviews should be documented and used to support written employment recommendations. All candidates hired should submit to a criminal background check and child abuse/neglect record check. All employment documentation should be retained by the Human Resources Department and all hiring decisions should be approved by the board and documented in the board meeting minutes.
- E. Ensure a written job description is prepared for each position prior to filling the position and all promotion decisions are approved by the board, as required by board policy. The approval should be documented in the board minutes.
- F.1
- &2. Approve an administrative salary schedule annually as required by board policy and ensure board approval is obtained for all salary schedules and percentage raises prior to approving the annual budget. The approval should be documented in the board minutes.
- 3. Ensure all salary increases in excess of annual step increases are properly approved and reasons documented in the employee's personnel file.
- G.1. Require board approval for vacation leave carryovers and payments of unused leave to ongoing employees. In addition, the Board should review past vacation leave carryovers and unused leave payments and determine whether corrective action is necessary.
- 2. Enforce the district policy regarding disciplinary action for failure to report absences as they occur.
- 3. Establish procedures to ensure FMLA-qualified absences are supported by a medical certification, documented, and tracked for compliance with FMLA requirements.
- H. Standardize procedures for documenting and processing employee terminations, require the Human Resources Department to perform and document exit interviews, and recoup salary overpayments.
- I.1. Review and approve extra duty salary schedules annually.
- 2. Adopt a policy to indicate whether extra duty payments can be earned during periods of long-term absences and suspensions.

AUDITEE'S RESPONSE

- A. *The District will draft a human resources handbook to be approved by the Board of Education to go into effect July 1, 2007 which will address this recommendation.*
- B. *This recommendation was been implemented as of January 31, 2007.*
- C.1. *The District has implemented this recommendation. Additionally, the District will draft a human resources handbook to be approved by the Board of Education to go into effect July 1, 2007 which will address this recommendation.*
- C.2. *The District has implemented this recommendation by creating a new application for employment with a question regarding relationships to board members or current district employees. Additionally, a data base is being constructed to track relationships and update any changes.*
- D.G.1,
3&H. *The District has implemented these recommendations.*
- E. *The District agrees with this recommendation. Written job descriptions will be presented to the Board for approval on or before July 1, 2007. The administration is directed to present new hires and promotions to the Board for approval, which will be documented in the Board minutes, effective immediately.*
- F.1
&2. *The Board agrees with these recommendations and directs the administration to work with the Board to develop an administrative salary schedule to be approved by the Board on or before July 1, 2007.*
- F.3. *The District agrees and will implement this recommendation on or before July 1, 2007.*
- G.2. *The District agrees with this recommendation and will present a proposal for Board of Education approval on or before July 1, 2007.*
- I.1. *The District agrees with this recommendation and will present an extra duty salary schedule to the Board of Education for approval and to be effective on or before July 1, 2007.*
- I.2. *The District agrees with this recommendation and will present a revised extra duty contract for the Board of Education's approval that addresses this recommendation for extra duty contracts in effect for the 2007/2008 school year.*

8. Payroll Records and Procedures
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Controls over payroll records and procedures are in need of improvement. The payroll calculations performed by the Payroll Specialist are not reviewed to ensure they are correct. The paying of lump sum amounts in May of each year has strained the district's cash flow and caused problems with fringe benefit vendors. Salaried employees are paid in advance of days actually worked and are not required to prepare timesheets. Some leave payments were not calculated correctly and documentation was not maintained to support an employee's final salary payment. Several concerns were noted regarding bus driver pay. Car allowances paid to two directors were not approved by the School Board. Overtime is not approved in advance and the district needs to review staffing needs to determine if overtime is necessary. Insurance billings are not reconciled to employee insurance payroll deductions.

- A. No one reviews the payroll calculations performed by the Payroll Specialist to ensure they are correct. Payroll calculations are performed when establishing new employees, granting raises, and for final, unused leave, and overtime payments. The CFO does not review the calculations prepared by the Payroll Specialist to ensure the compensation is calculated in accordance with board policy. The conditions noted in E. and F. below could have been detected and corrected on a timely basis if the CFO had reviewed and approved the payroll calculations prior to payment.
- B. The following concerns were noted regarding the timing of salary payments:
 - 1. Teacher contracts indicate payments will be made in equal installments from August through May; however, the district has a long-standing tradition of paying teachers in twenty-four equal installments with five of the installments being paid at the end of May. The corresponding withholdings and fringe benefits are paid at the same time. As a result, the district needs to have a substantial cash balance on hand to meet the obligations and, in May 2007, may have to issue tax anticipation notes to fund the payments due to the financial condition of the district as noted in MAR 1. In addition, issuing five installments to fringe benefit providers at one time has caused problems in the past. Some of the providers were apparently not equipped to process payments received in advance causing problems that had to be resolved.
 - 2. On July 5, 2006, the Director of Safety and Security/Enrollment and Residency was paid a \$7,000 lump sum salary payment, in addition to one twenty-fourth of his annual salary amount, for supervising the Transportation Department when the director was ill. His salary for the remainder of the fiscal year was reduced to offset the lump sum payment.

The district should consider paying all employees in equal installments to avoid large fluctuations in cash flow needs, to avoid problems with advanced payments to fringe benefit providers, and to ensure all employees are treated equitably.

- C. Salaried employees are paid in advance. District employees are paid on approximately the fifth and twentieth of each month. The payment received on the fifth of the month is for time worked from the first to the fifteenth day of the month and the payment received on the twentieth is for time worked from the sixteenth through the end of the month. As a result, absences in excess of leave balances that occur after the pay date may not be properly deducted from the employee's salary and employees that terminate before the end of the pay period may be overpaid. The conditions noted in E.2. below could have been prevented if the employees had been paid after the work period ended.

To reduce the risk of salary calculation errors and overpayments, the district should consider paying all employees after the work is performed.

- D. Salaried employees are not required to prepare time sheets. District policy requires most employees to report absences using the district's automated absence reporting system, while absences for cooks, custodians, and bus drivers must be reported daily by the employee's supervisor.

Timesheets are necessary to document hours actually worked, substantiate payroll disbursements, and provide the district with a method to monitor hours worked. Each salaried administrative employee should prepare and sign a time sheet. The employee's supervisor should document review and approval of the timesheet and the timesheet should be reconciled to the employee's leave records. Any differences should be investigated and corrected on a timely basis.

- E. The following concerns were noted regarding compensation paid to terminated employees:

1. Annual (sick) leave payments to terminated employees are sometimes not calculated in accordance with board policy, which requires payment of leave at \$90 per day. Employees were paid for 12 days of unused leave at their current daily rate of pay and the remaining balance was paid at a rate of \$90 per day. For example, a principal was paid \$5,547 for 12 days of unused leave, but should have been paid \$90 per day, or \$1,080, resulting in an overpayment of \$4,467.

Board policy GCBDAB indicates certified staff members that remain with the district until 50 years of age that have been employed by the district for 15 years may sell all unused leave back to the district at \$90 per day upon termination. Certified staff members employed by the district for five consecutive years or more may sell all unused leave in excess of 50 days back to the district at \$90 per day upon termination. The district was unable to provide us with any documentation authorizing employees to be paid for some unused annual leave at the employee's daily rate.

2. Some employees were overpaid for unused annual (sick) leave and/or vacation leave. The payments for the unused leave were calculated

several days prior to the termination date, based on the unused leave balances at the time of the calculation. The balances were not rechecked prior to payment and, as a result, some employees were improperly paid for days that were used after the payment amounts were calculated. For example, on July 20, 2006, an employee was paid for 87 days of unused annual leave, but her final leave balance was only 80 days, resulting in an overpayment of \$210.

To prevent overpayments, unused leave balances should be calculated and paid after the term of employment ends. In addition, the board should review payments for unused leave and recoup any overpayments.

3. The final salary calculation for a terminated employee was not documented and/or retained. When the employee terminated on the eighth of the month, she had already been paid through the fifteenth of the month. Two days after the termination, the employee was issued another payment for a partial month of work and 23 unused vacation days. We found no documentation indicating the employee was entitled to severance pay or supporting the final pay calculation. It appears the employee was overpaid by approximately \$2,000.

All payroll calculations should be documented and retained to substantiate the amounts paid.

F. The following concerns were noted regarding compensation paid to bus drivers:

1. Some bus drivers are scheduled to work more than 40 hours per week. Bus drivers are paid for two and one-half hours for each morning and evening run to deliver students to/from home, for a total of 25 hours per week. Drivers can also request to be assigned additional runs each day. The additional runs are assigned based on seniority; however, no limits have been set on the number of runs each driver can request per week. As a result, some drivers are scheduled to work more than 40 hours per week while other drivers are only scheduled to work 25 hours per week. All hours in excess of 40 hours per week must be paid at time and one-half, so the district is incurring overtime.
2. Time sheets for bus drivers do not clearly indicate the actual time worked for each run and drivers can be paid for multiple runs during the same time period. As a result, it is not clear how many hours were actually worked.

The various run times paid for each type of trip have been part of written agreements between the district and the bus drivers' union for many years. However, these terms have caused some employees to be paid for more hours than they may have actually worked and to be paid overtime when they may have actually worked less than 40 hours per week. The district

does not have records to indicate how much time the various runs actually take to compare to the hours paid per the agreement.

3. Bus drivers are paid a flat rate of \$25 per trip for runs to an after school program operated by a vendor instead of being paid at the hourly rate. Each trip takes approximately 45 minutes. The hours for these trips are not counted when calculating overtime pay for the drivers and the rate for the trip is higher than the hourly rate for the drivers.

To ensure the district is in compliance with the Fair Labor Standards Act, all runs performed by bus drivers should be compensated at the employee's hourly rate. In addition, all hours worked should be counted to ensure hours worked in excess of 40 hours per week are compensated at time and one-half.

- G. Car allowances paid to two directors were not approved by the School Board. In March 2006, the Director of Facilities and the Director of Safety and Security/Residency and Enrollment were awarded car allowances of \$2,500 per year and \$3,000 per year, respectively, retroactive to December 1, 2005. Since the School Board had approved annual employment contracts for these employees, it appears any additional compensation for these employees should have been subject to the approval of the School Board; however, these allowances were approved by the Superintendent and not the Board.

Any additional compensation provided to employees after their annual employment contracts are signed should be approved by the School Board.

- H. During the six months ended December 31, 2006, and the years ended June 30, 2006 and 2005, the district paid overtime totaling approximately \$122,000, \$174,000 and \$117,000, respectively. The district has paid significant amounts of overtime to bus drivers, mechanics, custodians, maintenance employees, secretaries, and the payroll and leave/core data specialists. Some of these costs may be reduced by adjusting work assignments or hiring part-time employees. In addition, overtime is not being approved in advance as required by district policy.

Overtime was not approved in advance by the Director of Human Resources for four of five overtime payments reviewed. The Human Resources Handbook indicates principals/supervisors must obtain prior approval from the Director of Human Resources before allowing an employee to work additional time or overtime. The policy does not contain any exceptions for emergencies. To improve efficiency, the district should consider establishing guidelines defining emergency situations and allowing overtime for emergencies to be approved after the time is worked. All overtime that does not meet the criteria for an emergency situation should be approved in advance by the Director of Human Resources or his designee. In addition, the district should review staffing and workloads for positions that incur frequent overtime payments to determine whether workloads need to be adjusted and whether more full or part-time personnel should be hired.

- I. The district is billed monthly for insurance benefits purchased by employees through payroll deductions; however, the payroll deduction amounts are not reconciled to the amounts billed to and paid by the district. For two of four withholdings reviewed, the amounts withheld were less than the amounts billed to and paid by the district. As a result, the district has subsidized the costs for some insurance benefits that should have been paid by employees.

Insurance billings should be reconciled to employee payroll deductions for insurance and any differences should be investigated and resolved on a timely basis. In addition, the district should reconcile past billings and deductions and make any necessary corrections.

WE RECOMMEND the School Board:

- A. Require the CFO to review and approve payroll calculations.
- B. Stop the practice of paying lump sum amounts and consider paying all employees in equal installments.
- C. Consider changing payroll cycles to pay all employees after the work is performed.
- D. Require administrative employees to prepare timesheets. The time sheets should be signed by the employee, reviewed and approved by the employee's supervisor, and reconciled to the employee's leave records. Any differences should be investigated and resolved on a timely basis.
- E.1. Ensure all annual leave payments to terminated employees are paid in accordance with district policy.
 2. Ensure unused leave balances are calculated and paid after the term of employment ends. In addition, the Board should review leave payments and recoup any overpayments.
 3. Ensure all payroll calculations are documented and retained to substantiate the amounts paid.
- F.1. Attempt to limit overtime paid to bus drivers.
 2. Require bus drivers to document the time period for each run completed and compare the actual time to the standard run times to determine if adjustments are needed.
 3. Ensure all bus driver hours are paid at the employee's hourly rate and all hours worked are counted when calculating overtime payments.

- G. Require board approval of any additional compensation provided to employees after their annual employment contracts are signed.
- H. Establish an overtime policy that defines emergency situations and allows overtime for emergencies situations to be approved after the time is worked. All overtime for non-emergencies should be approved in advance by the Director of Human Resources. In addition, the School Board should review staffing and workloads to identify ways to reduce overtime and areas where additional personnel may be needed.
- I. Reconcile insurance billings to employee payroll deductions for insurance and resolve any differences on a timely basis. In addition, the district should review past billings and deductions and make any necessary corrections.

AUDITEE'S RESPONSE

- A. *The District has implemented this recommendation as of January 31, 2007.*
- B. *The Board agrees with this recommendation and directs the administration to offer employees a choice of receiving a lump sum payment for the summer months or equal installments through June, July and August on the regular pay dates. Beginning with the 2007/2008 school year, all employees will be paid in 24 equal installments.*
- C&D. *The District agrees with these recommendations and will present a proposal addressing these recommendations for Board of Education approval on or before July 1, 2007.*
- E,F.3.
&I. *These recommendations have been implemented.*
- F.1
&2. *The District agrees with these recommendations and will present a proposal regarding these recommendation to the Board of Education for approval on or before July 1, 2007. This is currently a subject of the meet and confer process.*
- G. *The Board will implement this recommendation and directs the administration to require employees receiving reimbursement for mileage to complete travel logs that detail specific travels and purposes. The procedure for reimbursement will be outlined in the human resources manual to be presented to the Board for approval on or before July 1, 2007.*
- H. *The District agrees with this recommendation, which will be addressed in the human resources handbook to be presented to the Board of Education for approval on or before July 1, 2007.*

9.	Capital Improvements and Property Purchases
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A formal long-term capital improvement plan has not been prepared since 1996 and appraisals were not obtained for two properties purchased by the district. Energy cost savings resulting from energy management improvements are not monitored.

- A. The most recent formal long-term capital improvement plan was prepared in 1996 and was for growth within the district through the 2000-2001 school year. Since 2001, the district has constructed a middle school for approximately \$14.2 million and a new building at the high school for \$1.8 million, purchased two properties on St. Cyr Road and Chambers Road for \$3.7 million, renovated various buildings, and installed energy management systems in most of the district buildings. The properties purchased have been renovated and are being used for classrooms, offices, gymnasiums, meeting rooms, auditoriums, kitchens, cafeterias, and storage. In addition, the district vacated an old middle school building which remains unused.

Long-term planning is necessary to ensure the district can provide and maintain sufficient facilities to address increases or decreases in enrollment. In 1996, when the last plan was prepared, district-wide enrollment was 5,646 students. In the fall of 2006, enrollment was 8,032 students. A long-term capital improvement plan should be prepared in conjunction with the annual fiscal budget, reviewed and updated, if necessary, each year, and approved by the board.

- B. The district did not obtain appraisals for two properties purchased. Before obtaining the properties, the district leased space in several buildings from the property owner. In 2005, the property owner informed the district of their intent to sell the properties, also stating that all tenants had to vacate their properties by June 30, 2005. Due to having limited space in district-owned buildings, the district considered several properties available for sale by the property owner before settling on the two properties purchased. The two properties' combined original asking price was approximately \$4.2 million. After negotiations, the properties were purchased for a total of approximately \$3.7 million. After closing on the first purchase, the district contracted with a vendor to assess the condition of the buildings on both properties. Although the buildings were assessed as structurally sound, the vendor estimated the buildings needed approximately \$3 million of improvements.

Without an independent appraisal of property purchased, the district has less assurance the price paid is reasonable and represented the fair value of the property. To provide assurance that a reasonable price is paid for land and buildings and that the best property is selected, the board should document all sites that are considered, obtain appraisals prior to purchase for all potential sites under serious consideration, and maintain documentation of other information considered in the site selection process.

- C. Energy cost savings associated with the district's original energy management contract are not monitored. The district originally entered into an energy management contract with a vendor in 2000 for lighting upgrades throughout the

district. The contract cost over \$4.3 million and 20-year bonds totaling \$3.9 million were issued to finance it. The contract indicated the vendor was responsible for monitoring the cost savings associated with the installation of the new equipment; however, the district has not required the vendor to provide monitoring reports. To ensure that the district is actually saving on energy costs due to the installation of the equipment, the district should require monitoring reports from the vendor documenting the savings in energy costs.

WE RECOMMEND the School Board:

- A. Adopt a formal, long-term capital improvement plan. The plan should be prepared, reviewed, and updated annually in conjunction with the preparation of the annual budget.
- B. Consider alternative sites for future land and building acquisitions and obtain appraisals prior to purchase for any sites under serious consideration for purchase. Documentation of all pertinent information related to land and building purchases, including the reasons for selecting a particular site for purchase, should be maintained and made available to the public upon completion of the purchase.
- C. Require the vendor of the 2000 energy management contract to provide monitoring reports to ensure the district is actually saving money on energy costs.

AUDITEE'S RESPONSE

- A. *The District agrees with this recommendation and will present a formal, long-term capital improvement plan for Board of Education approval on or before September 30, 2007.*
- B. *The District agrees with this recommendation. While no land or property purchases will be considered any time in the near future, the procurement handbook, to be presented to the Board of Education for approval on or before July 1, 2007, will address these recommendations.*
- C. *The District agrees with this recommendation. The Chief Financial Officer is directing his staff to contact the vendor and request monitoring reports, as per the contract. In addition, the current vendor will be required to produce quarterly reports to the Board of Education regarding energy costs as a result of the energy management contract.*

10. Cellular Phones

The district has not developed written policies and guidelines regarding cellular phone usage and its list of cellular phones is not kept up-to-date. In addition, the district is paying for both a cellular phone and personal digital assistant with cellular phone capabilities for the superintendent. For the year ended June 30, 2006, the district paid \$52,300 in cellular phone charges for 122 phones.

- A. The district has not developed written policies and guidelines regarding cellular phone usage to determine whether a cellular phone or wireless device is needed or of benefit to the district. While the district indicated they do review phone bills, this review is not documented and the district is not reviewing billings to determine if the plans provided are the most economical for the required usage. Several problems were noted in reviewing the cellular phone bills that may have been prevented or discovered if a policy or guidelines had been in place:
1. Only one board member is provided with a district owned cellular phone and it is not clear why such a benefit is necessary for board members. In addition, it appears the phone may have been used inappropriately. The phone number for the district-owned cellular phone was listed as the board member's contact number on a website promoting her campaign for city alderwoman. In addition, the district paid \$2,053 from July 2005 to December 2006, for 742 hours, or 41 hours per month, of usage.
 2. In July 2006, 10 emergency phones were activated for use during power outages caused by a storm. Each phone was placed on a \$60 per month plan with 1000 minutes. From July 2006 to December 2006, the 10 phones were used a total of only 177 minutes and accumulated charges of \$3,041, after adjustments for e-rate discounts. While the need for extra phones in case of an emergency is understandable, having the phones on \$60 per month plans with 1000 minutes appears to be excessive considering the amount of usage over a six month period.
 3. A maintenance technician was assigned a phone with a \$14 per month plan for 50 minutes. From July 2005 to December 2006, average charges for the phone were \$110 per month. In another example, a department director was assigned a phone with a \$40 per month plan for 300 minutes. During the time the director used the phone, July 2006 to December 2006, average charges were \$220 per month. It appears that either the number of minutes provided by these plans was not sufficient or the phones may have been misused.
 4. A district employee made a 132 minute phone call to Michigan with a district owned cellular phone, accumulating charges of \$53. The employee made numerous calls to Jamaica with the same phone, accumulating an additional \$257 in charges. There was no documentation that these calls were for official district business and there was no documentation showing that the district asked to be reimbursed for these charges.
 5. A department director was reimbursed \$116 for use of her personal cellular phone, while in possession of a district owned cellular phone. The director requested that \$116 of her \$188 August 2006 personal cellular phone invoice be paid by the district without identifying which calls were

for business purposes. During the same period, the director's district owned cellular phone was used 146 minutes under a plan that provides 1000 minutes. No reason was documented or provided to explain why it was necessary for the district to pay for the personal phone.

While cellular phones can help increase employee productivity, they are also costly. A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees and board members need a cellular phone, proper use of the phone, and a reimbursement policy if the board authorizes the phone to be used for personal purposes. Effective procedures should be implemented to monitor cellular phone usage to ensure the best plan is used for each phone and review invoices for propriety.

- B. A list of district-owned cellular phones, showing each number and the person assigned the phone, is not kept up-to-date. The most recent list of cellular phones, dated August 2006 did not include the 10 emergency phones mentioned in part A.2 above. An up-to-date list is necessary to secure better internal control over district property. The district should periodically reconcile the phone numbers listed on the monthly invoices to the numbers on the list, with any differences investigated.

WE RECOMMEND the School Board:

- A. Develop a policy regarding the use of cellular phones including an assessment of which employees need a cellular phone and procedures to monitor their use.
- B. Periodically reconcile the cellular phone list to the phone numbers listed on monthly invoices.

AUDITEE'S RESPONSE

- A. *The District agrees with this recommendation and will implement a new policy by July 1, 2007. The District is pursuing refunds and billing corrections/refunds for issues surrounding cell phone misuse.*
- B. *This recommendation has been implemented.*

11. Disbursement Controls and Procedures

Controls and procedures over district disbursements need improvement. The duties of approving and recording food service disbursements are not adequately segregated and the work performed is not reviewed. Normal district procedures are not followed for the distribution of some checks, the list of checks presented to the board each month is not complete, and several checks are issued prior to board approval.

- A. The duties of approving and recording food service disbursements are not adequately segregated and the work performed is not reviewed. During the year ended June 30, 2006, purchases from the Food Service Fund totaled approximately \$2.9 million. The food service director orders all goods and services for the food service department, approves the payment of invoices, enters the invoices into the accounting system to initiate payment, and files the invoices without submitting them to the Chief Financial Officer (CFO) for review and approval. All other district disbursements are subject to the review and approval of the CFO. The business office does not match checks generated for food service disbursements to the invoices.

Good business practice requires all disbursements to be reviewed by someone independent of the purchasing function. The lack of an independent review of food service invoices increases the possibility of inappropriate disbursements occurring. Controls could be improved by requiring the CFO to review and approve all food service disbursements before checks are issued.

- B. Normal district procedures are not followed for the distribution of some checks. Most checks issued to vendors are mailed; however, the CFO allowed some employees to hand-deliver checks to Facility Department vendors and a software training vendor to provide more timely payments. The employees are not required to sign a log when they take possession of the check, nor is the vendor required to sign a log acknowledging receipt of the payment. This practice increases the risk of loss or misuse of funds.

To minimize the risk of loss or misuse of funds, the School Board should establish a policy requiring the business office to mail all vendor checks or require the vendor to pick up the check and sign a log acknowledging receipt of the payment.

- C. The list of checks presented to the board each month is not complete and several checks are issued to vendors prior to or without board approval. During the month of April 2006, 161 checks totaling over \$1.7 million were issued to vendors prior to the monthly board meeting. Although many of the checks were for payroll deductions, employee benefits, or utilities, several were for contracted services, purchase of goods, and employee reimbursements. The reasons for issuing these checks prior to the monthly board meeting were not always documented and approved by the CFO. In addition, 84 of the 161 checks were never approved by the board, because they were not on the list of checks submitted for approval. The list of checks is prepared 10-14 days before the monthly board meeting. Checks issued in the time between the preparation of the list and the board meeting do not appear on the current list or on the list for the next month's meeting; therefore, they are never approved. In addition, the list of checks is not signed or initialed to indicate approval by the board and the list is in alphabetical order by vendor, which makes it difficult to account for the numerical sequence of checks issued.

District policy allows checks to be issued prior to the monthly board meeting for the payment of utility bills and emergencies as authorized by the CFO. Several of the checks reviewed did not appear to meet this criteria. The practice of issuing checks prior to board approval diminishes the board's ability to prevent unreasonable and unnecessary disbursements. The board should evaluate the need for issuing checks prior to the monthly board meeting and determine whether a second payment cycle should be implemented. If an additional payment cycle is necessary, the list of checks should be reviewed and approved by the board president and board treasurer prior to issuance, followed by full board approval at the next board meeting.

The list of checks presented to the board should be in numerical sequence by check number and the board should follow up on any missing check numbers to ensure all payments were properly approved by the board. The list should be signed by the board president and board treasurer to document their approval.

WE RECOMMEND the School Board:

- A. Require the CFO to review and approve food service invoices prior to payment.
- B. Establish a policy requiring the business office to mail all vendor checks or require the vendor to pick up the check and sign a log acknowledging receipt of the payment.
- C. Evaluate the need for issuing checks prior to monthly board meetings and determine whether a second payment cycle should be implemented. The School Board should review the numerical sequence of checks issued each month and follow up on any missing check numbers to ensure that all disbursements are approved. In addition, the board president and board treasurer should sign or initial a list of all check issued each month to document their approval.

AUDITEE'S RESPONSE

A. *This recommendation has been implemented, effective December 1, 2006.*

B&C. *These recommendations have been implemented.*

12. Receipt Records and Procedures

Several areas were noted where controls and procedures over cash receipts need improvement. The duties of receiving and recording receipts are not adequately segregated and a supervisory review of the work is not performed. A log is not maintained for monies received by mail, receipts are not deposited intact and on a timely basis, the composition of receipts is not reconciled to the composition of deposits and some receipts were withheld to maintain petty cash or change funds. The Early Childhood Education Center's petty cash fund balance is excessive and is not maintained

on an imprest basis. Controls over central office beverage sales and sport concession stand sales need improvement.

The majority of district revenues come from the state and county and are direct deposited into the district's bank accounts. Receipts for child care, food service, student activities, retiree insurance, tuition, facility rental, beverages sales, and other miscellaneous receipts are collected at various district facilities. Employees at each collection point maintain records of the amounts received and remitted to the business office to be deposited and recorded in the district's accounting records. The business office deposited approximately \$2 million for the year ended June 30, 2006.

- A. The duties of receiving and recording receipts are not adequately segregated. The bookkeeper at the business office receives the monies remitted from various district facilities, counts the receipts, prepares the deposit slip, and records the amount in the district's accounting system. However, the bookkeeper's work is not reviewed.

To reduce the risk of loss or misuse of funds, the duties of receiving and recording receipts should be segregated. If segregation of duties is not possible, a supervisory review of the bookkeeper's work should be performed and documented.

- B. An immediate record of receipts is not prepared for monies received by mail. These monies include retiree insurance premiums, tuition, facility rental fees, and various other receipts.

To reduce the risk of loss or misuse of funds, all mail should be opened prior to distribution and all monies received by mail should be recorded on a mail log, before being remitted directly to the business office for deposit. Supporting documentation for the payments should be sent to the employees that update the accounts receivable records. The mail log should be remitted to the business office and reconciled with deposits to ensure all monies received are accounted for properly.

- C. Receipts are not deposited on a timely basis. Receipts are deposited on two consecutive days per week during the school year and weekly during the summer. During April 2006, receipts averaged approximately \$34,000 and \$13,000 for the first and second deposit days, respectively.

To adequately safeguard receipts, reduce the risk of loss or misuse of funds, and maximize interest revenue, receipts should be deposited daily or when accumulated receipts exceed \$100.

- D. Receipt records prepared at various collection points are not reconciled to deposits. As a result, the district was not aware that some monies were not being remitted and deposited but instead were withheld from transmittals and used as petty cash and change funds. For example, all \$20 registration fees collected at

the Early Childhood Education Center are retained to maintain a petty cash fund and a \$200 change fund. Business office personnel were not aware of these funds. In addition, the high school secretary retained \$5 student identification (ID) replacement fees to establish a \$100 change fund for athletic events. Business office personnel were aware of the change fund, but did not know the source of the funding. In addition, the district allows undeposited receipts to be used to cash checks for employees.

Registration and student ID fees are accountable fees and should be remitted to the business office. To provide assurance all monies received have been accounted for properly, the district should require all receipts to be deposited intact and the composition of receipts recorded at each collection point should be reconciled to the composition of deposits. Furthermore, the establishment of any petty cash or change funds should be approved by the school board and checks should not be cashed.

- E. The balance of the petty cash fund maintained at the Early Childhood Education Center appears excessive, the fund is not maintained on an imprest basis, and the cash on hand does not agree to the fund ledger. As indicated in D above, \$20 registration fees collected are added to the petty cash fund and on September 12, 2006, the cash on hand was \$3,394. The fund is used to purchase food and supplies and disbursements for July and August 2006 were less than \$300 per month. A ledger is maintained to document the fund's receipts, disbursements, and the remaining balance; however, the ledger balance exceeded the balance on hand by \$80 at the time of our cash count. The Center's Director determined the difference was a disbursement that had not been recorded in the ledger. Center personnel indicated reconciliations between the ledger and the balance on hand are performed periodically, but are not documented.

Having an excessive amount of petty cash on hand increases the risk of loss or misuse of funds. The petty cash needs of the center should be evaluated and the balance set at a reasonable amount and the fund should be operated on an imprest basis, meaning that cash and the invoices should always total to an established balance. The district should replenish the fund by issuing checks equal to the invoices paid from the fund and submitted to the business office. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to reduce the risk of misuse. The reconciliations should be documented and retained.

- F. Controls over central office beverage sales need improvement. The district maintains a stock of beverages at the central office to be consumed through the central office vending machine or at various district events. During the two years ended June 30, 2006, central office beverage receipts were \$1,376 and disbursements were \$8,211 for a loss of \$6,835.

1. The district does not maintain inventory records for beverages stored at the central office. Beverages are reordered by a district employee when the amount of beverages on hand appears to be low. Inventory records should be maintained on a perpetual basis, with all purchases being added and all amounts used being deducted from the record. In addition, beverages on hand should be physically inventoried on a periodic basis and agreed to the perpetual inventory records.

Adequate inventory records are necessary to secure better internal controls and safeguard items which are susceptible to loss or theft. Periodic physical inventories are necessary to ensure the records are accurate, identify any unrecorded additions and deletions, and detect possible loss or theft.

2. Receipts collected from the central office beverage machine are not deposited on a timely basis. Central Office beverage receipts are collected from a vending machine by a district employee and, during the two years ended June 30, 2006, only three deposits were made, totaling \$1,376.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, receipts should be deposited periodically or when accumulated receipts exceed \$100.

3. Beverage costs are not properly allocated. When beverages are purchased, the cost is charged to an account named District Paid Costs. When beverages are provided for consumption at district meetings and events, such as the convocation for new teachers and Clergy Coalition meetings, the costs are not allocated to the account for the applicable event. As a result, the event costs are understated and the cost of soda purchased for resale is overstated.

Allocation of expenses is necessary to provide an accurate record of district operating costs and to ensure beverage revenue is sufficient to cover the costs of beverages sold.

4. The district subsidizes the cost of beverages sold at the central office. The beverages are sold for \$.60 each. Beverage invoices for the audit period indicate the district was purchasing soda for \$.71 per unit, tea for \$.78 per unit, and juice for \$.80 per unit. As a result, other revenues are being used to subsidize the costs.

The district should refrain from subsidizing the cost of beverages sold by setting beverage prices at a level sufficient to recover the costs.

- G. Controls over sport concession stand receipts need to be improved and it appears that some monies received may not have been properly deposited. During the

2006 football season a total of \$3,164 in concession stand receipts was deposited; however, district personnel calculated that based on items sold and ending inventory counts, the total receipts should have been \$5,867 for a loss in receipts of \$2,703. Possible causes of the loss of revenue include theft of goods or receipts and giving away goods for free. The concession stand at football games is worked mainly by food service employees and students. The high school principal collects receipts after the game has ended and remits them to the business office for deposit one to three days after the game. In addition, the cost of operating the concession stand, including \$520 of labor, totaled \$3,655 or \$491 more than receipts deposited. Controls over the concession stand should be improved to ensure all receipts are deposited and to reduce the risk of loss or theft of concession items.

WE RECOMMEND the School Board:

- A. Segregate the duties of receiving and recording receipts. If segregation of duties is not possible, at a minimum, a supervisory review of the bookkeeper's work should be performed and documented.
- B. Require an immediate record of receipts to be prepared for all monies received by mail. The mail log should be reconciled to deposits and the district's accounting records.
- C. Deposit daily or when accumulated receipts exceed \$100.
- D. Deposit receipts intact and reconcile the composition of receipts to the composition of bank deposits. In addition, the School Board should approve the establishment of any petty cash or change funds. The cashing of checks for employees should be discontinued.
- E. Establish a reasonable balance for the Early Childhood Education Center's petty cash fund and maintain the fund on an imprest basis. Periodic independent reconciliations of the fund should be performed and documented.
- F.1. Maintain perpetual inventory records of beverages stored at the central office and periodically perform physical inventories of the beverages on hand.
 - 2. Deposit receipts periodically or when accumulated receipts exceed \$100.
 - 3. Establish procedures to ensure beverage costs are properly allocated and beverage revenue is sufficient to cover the cost of beverages sold.
 - 4. Set beverages prices at a level sufficient to recover the costs.
- G. Improve controls over concession stands to ensure all monies received are deposited and to reduce the risk of loss or theft of concession items.

AUDITEE'S RESPONSE

A,B,

F&G. *These recommendations have been implemented.*

C. *The Board agrees with this recommendation and directs the CFO to increase the deposits to three times per week.*

D. *The District is currently recording deposits to identify composition of receipts. The Board of Education will amend policy DJB to address the issue of petty cash funds on or before April 1, 2007.*

E. *The District agrees with this recommendation. The Board of Education will amend policy DJB to address this recommendation.*

13.

Capital Assets

Records relating to capital assets are not complete or accurate. The district maintains records for vehicles, buildings, and technology equipment; however, the list of Central Office computers has not been updated in four years. An annual inventory of capital assets is not performed and items owned by the district are not tagged or otherwise identified as district owned property. The district could provide no records of furniture and other equipment. In addition, the district does not reconcile asset purchases to additions to the asset inventory.

Because the district has not kept records of capital assets, it was difficult to locate several pieces of artwork purchased by the district. One piece titled "The Spirit of Learning" and valued at \$250 was not located. Six additional pieces of artwork could not be initially located on January 19, 2007, but were observed on February 1, 2007. If the district had maintained records on these assets, the artwork should have been easily located.

Many pieces of artwork are located in individual offices and numerous pieces of furniture and equipment are stored in a vacant school building. Without a record of these items, the risk of undetected theft or misuse increases.

In addition, a lack of detail on some invoices for computer equipment and artwork makes it difficult to reconcile assets received to the assets listed on the invoices. Computer invoices only list the total of computers purchased and a general description of the type of computers. Requiring details such as serial numbers for each asset would help ensure assets received are the same as assets listed on the invoices. The detailed information should be used for updating capital asset records.

Property records should be maintained on a perpetual basis, accounting for property acquisitions as they occur. Additions should be reconciled to purchases annually.

Complete and accurate capital asset records are necessary to ensure better internal control over district property and provide a basis for determining proper insurance coverage. Physical inventories are necessary to ensure asset records are accurate, identify any unrecorded additions and deletions, detect theft of assets, and identify obsolete assets. Prenumbered tags when affixed to property items, allow for identification of the property in the records and limit the potential for personal use of school district assets.

WE RECOMMEND the School Board establish property records for all capital assets and require annual physical inventories of the assets. The School Board should require additions to the asset list be reconciled to purchases and ensure prenumbered inventory tags are attached to district property and equipment.

AUDITEE'S RESPONSE

The Board agrees with this recommendation and directs the administration to pursue this recommendation by preparing a request for proposals and/or bids for the inventory of capital assets and the creation of a data base of said assets. The proposals/bids are to be presented to the Board for consideration and/or approval on or before July 1, 2007.

14. Board Meeting Minutes

The board meeting minutes are not always signed to attest to their completeness and accuracy. In addition, the open session minutes do not state the specific reasons for closing meetings and some items discussed in those closed meetings do not appear to be allowed under the provisions of the Sunshine Law.

- A. Although board meeting minutes are approved at the following meeting, the minutes are sometimes not signed to attest to their completeness and accuracy. During the two years ended June 30, 2006, there were seven closed meetings and thirteen open meetings for which the minutes were not signed by the board president and/or recording secretary. Minutes serve as the only official permanent record of decisions made by the board. Therefore, board meeting minutes should be signed by the recording secretary as preparer and by the board president to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- B. The open meeting minutes did not document the specific reasons for closing 17 of 18 meetings during the two years ended June 30, 2006. In addition, the district did not document how some items discussed in closed session complied with the Sunshine Law. For example, on June 6, 2006, the board discussed district employment procedures and passed a motion to remove a hiring freeze.

Section 610.022, RSMo, requires the specific reason for closing public meetings be entered into the minutes. In addition, Section 610.021, RSMo, allows the board to discuss certain subjects in closed meetings, including litigation, real

estate transactions, bid specifications and sealed bids, specific personnel matters, and confidential or privileged communications with auditors. The board should restrict the discussion in closed sessions to specific topics listed in Chapter 610 of the state statutes.

WE RECOMMEND the School Board:

- A. Ensure the board meeting minutes are signed by the board president and recording secretary to attest to their completeness and accuracy.
- B. Ensure open meeting minutes state the specific reasons for going into a closed session and limit closed meetings to only those purposes specifically allowed by state law.

AUDITEE'S RESPONSE

A&B. These recommendations have been implemented.

15. Internal Audit

Although the district has an internal auditor position, the duties assigned to this employee have involved working with the budget and various accounting issues. No internal audit reviews have been performed. Internal audits can be a valuable management tool by identifying ineffective or inefficient operations and ensuring that established policies and procedures are followed. An internal audit function can also help to ensure the necessary operating regulations and policies are in place and provide assurances that maximum use of resources is being made. A properly functioning internal auditor could have helped in discovering and resolving several of the areas commented on in this report including budgeting and financial monitoring, contract and bid compliance, travel policies and procedures, long-term capital improvement planning, and capital asset management.

WE RECOMMEND the School Board fully utilize the district's internal auditor to identify and review ineffective or inefficient operations and ensure established policies are followed.

AUDITEE'S RESPONSE

The Board agrees with this recommendation and will pursue implementation.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

RIVERVIEW GARDENS SCHOOL DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Riverview Gardens School District is located in St. Louis County, Missouri and covers 12 square miles in Dellwood, Bellefontaine Neighbors, Moline Acres, Ferguson, Riverview and unincorporated St. Louis County.

The district operates a senior high school (grades 9-12), two middle schools (grades 6-8), nine elementary schools (one school is grade K-2 and eight schools are grades K-5), an intermediate academy (grades 3-6), and an early childhood center. Enrollment was approximately 7,879 for the 2005-2006 school year. The district employed approximately 977 full- and part-time employees, including 39 administrators, 384 teachers, and 554 support staff.

The Riverview Gardens School District has been classified under the Missouri School Improvement Program (MSIP) as "Provisionally Accredited" by the Missouri Department of Elementary and Secondary Education. A provisionally accredited district has not met enough of the MSIP standards and indicators to be accredited.

An elected board acts as the policy-making body for the district's operations. The board's seven members serve 3-year terms without compensation. Members of the board during the year ended June 30, 2006, and the positions held at June 30, 2006, were:

School Board	Dates of Service During the Year Ended June 30, 2006
Gilda Hester, President	July 2005-June 2006
Marlene Terry, Vice President	July 2005-June 2006
Jennifer Erby, Secretary	July 2005-June 2006
Michael Person, Treasurer	July 2005-June 2006
Rev. Tommie Pierson, Member	July 2005-June 2006
Mary Oswald, Member	July 2005-June 2006
Selena Melton, Member	April 2006-June 2006
Bobbie Small	July 2005-April 2006

The district's other principal officials during the year ended June 30, 2006, are identified below. The compensation of these officials is established by the school board.

Other Officials	Dates of Service During the Year Ended June 30, 2006	Compensation Paid for the Year Ended June 30, 2006
Dr. Henry P. Williams, Superintendent (1)	July 2005-June 2006	\$ 238,160
Dr. Kay Royster, Chief Academic Officer (2)	July 2005-June 2006	117,404
Dr. Natalie Feder-Thomas, Assistant Superintendent for Instructional Support/Secondary (3)	July 2005-June 2006	105,280
Dr. Bobby Gines, Assistant Superintendent for Instructional Support/Elementary (4)	July 2005-June 2006	128,442
Roger Reese, Chief Financial Officer (5)	April 2006-June 2006	26,096
Louis Deavens, Chief Financial Officer (6)	July 2005-April 2006	121,476
Dr. Howard M. Spencer, Assistant Superintendent for Human Resources (7)	July 2005-June 2006	114,200
Rosie Woods, Director of Federal Programs	July 2005-June 2006	88,729
Dr. Christopher Baldwin, Director of Research and Evaluation (8)	July 2005-June 2006	98,448
Bridgett Willis, Assistant to the Superintendent/Public Information Officer	July 2005-June 2006	65,520
Chris Kulla-Branz, Early Childhood Director	July 2005-June 2006	73,975
David Bobo, Director of Safety and Security/Residency & Enrollment (9)	July 2005-June 2006	64,209
Joan Hubbard, Facilities Director (10)	July 2005-June 2006	86,458
Kim Bryant, Food Services Director	July 2005-June 2006	54,373
James Thomas, Transportation Director	June 2006	2,077
Sharon Shoults, Transportation Director (11)	July 2005-May 2006	49,653

- (1) Includes a car allowance of \$700 per month (\$8,400 total), retroactive car allowance adjustments totaling \$3,600, annuity contributions totaling \$40,000, and accrued vacation payments totaling \$26,122.
- (2) Resigned in June 2006 and was replaced by Jeanette Pullium in July 2006. Her final pay included \$7,407 for accrued vacation.
- (3) Reassigned as Executive Director-Student Support Services in July 2006 and was replaced by Dr. Rhonda Key as Executive Director of Instructional Support-Secondary in July 2006.
- (4) Retired in June 2006 and was replaced by Darlynn Bosley as Executive Director of Instructional Support-Elementary in July 2006. His final pay included \$13,287 for accrued vacation.
- (5) Replaced Louis Deavens as Chief Financial Officer in April 2006. Roger Reese resigned in July 2006 and was replaced by Cedric Lewis in August 2006.
- (6) His final pay included \$16,197 for accrued vacation.
- (7) Resigned in June 2006. The final pay included \$10,200 for accrued vacation. The position was changed to Director of Human Resources and was filled by Phillip Mosley in July 2006.
- (8) The final pay included \$11,088 for accrued vacation. The position was changed to Director of Technology and Data Management and was filled by Richard Miller in July 2006.
- (9) Includes a car allowance of \$250 per month (\$1,750 total) for December 2005 to June 2006.
- (10) Includes a car allowance of \$208 per month (\$1,458 total) for December 2005 to June 2006. Resigned in October 2006 and was replaced by Robert Barney in January 2007.
- (11) Includes \$1,006 for additional duties performed when her support staff was absent. Her final pay included \$4,380 for accrued vacation.

Assessed valuations and tax rates for 2006 and 2005 were as follows:

	2006	2005
Assessed valuation	\$ <u>253,771,330</u>	<u>252,310,510</u>
Tax rate(s):		
Incidental	\$ 4.1177	3.6597
Debt service	1.5900	1.5900
Capital projects	<u>0.0000</u>	<u>0.2300</u>
Total	\$ <u>5.7077</u>	<u>5.4797</u>